Nordic welfare financiers made global portfolio investors: Institutional change in pension fund governance in Sweden and Finland

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Abstract

Pension funds have lately emerged as an essential field of study in various disciplines within social sciences. Political economists, economic geographers and some social policy researchers have studied the role of pension funds very broadly for instance in context of labour market relations, economic development and financial systems. Yet comparative studies in social and public policy have for long studied pension funding mostly in respect to its role in pension systems and reforms, and to the effects of investment returns to the development of retirement income benefits. Whereas the comparative studies have mostly focused on the savings and 'liability side' (e.g. pension benefits) of pension funds, in this paper, we conduct a comparative analysis on the politics of 'the asset side'. It is argued that the economic and social consequences of the usage of pension capital need to be understood as intrinsic parts of pension regimes that cannot be left outside classification of these regimes in social sciences.

Our comparative analysis studies the historical regulative institutional development paths of pension fund investment governance in Finnish (TEL/TyEL) and Swedish (ATP/AP, PPM) first pillar, second tier pension systems. The time period of the analysis is from the establishment of these systems in late 1950s and early 1960s to the recent reforms of last few years. Both systems have developed so that the role of financier of national economy has decreased and the role of more global portfolio investor increased over time. We argue, however, that there have been very significant differences between the institutional development paths leading to the new investor roles. The Swedish model has included more paradigmatic qualitative changes in the whole pension regime whereas the changes in Finnish pension fund governance have been rather parametric and quantitative. The financial crisis of 2007–08 has also illustrated some essential differences between the current systems.

Keywords: Finland, governance, institutional change, pension funds, Sweden

Introduction

Capital derived from statutory and voluntary pension arrangements has played a role of utmost importance in the development of capitalist national economies and of global finance. It is the largest single block of financial capital invested in the global financial markets and the influence of today's massive pension funds[1] is being felt in every single capital market in the world. Financial markets have become dependent on pension fund investments as much as pension provision in various countries has become dependent on the performance of the same markets (Clark 2000). Pension funds revolutionized the entire domain of Anglo-American finance in the 1970s (Clowes 2000, Drucker 1976) and now continue to steer the direction of mainstream financial activities globally (Davis 2002, Davis & Steil 2001). They not only spread financial innovation but are also vital actors in changing the business models in the domain of finance (Ambachtsheer 2007). Pension funds now promote reform pressures towards their investee firms (Clark & Wójcik 2007) and seek increased control over firm-level decision making in the name of long-term shareholder value in such a scale that it could be even described as an emergence of a new development stage in capitalism, which belongs to 'pension funds that mediate beneficiaries' future claims against the actions of firms today' (Clark & Hebb 2004). In brief, we are witnessing an era of 'pension fund capitalism' (Clark 2000), in which pension power, the ability to affect and change social realities through investment actions (e.g. Hayden 1989), is an essential transformative force.

[1] By 'pension funds' we are not only referring to the specific Anglo-American-Dutch legal entities called and organisational forms of pension funds in this paper, but to various different kinds of institutional arrangements meant to use assets by making financial investments covering pension benefit liabilities.

There has been much debate on pension funds and investments in various disciplines within social sciences such as economic geography, political economy, economics, sociology, and public policy. For example, there have been many critical debates on the general societal role of pension funds in terms from ‘pension fund capitalism’ and ‘pension fund socialism’ (Langley 2008), the failures of the domain of finance in pension provision (Blackburn 2003, 2006a, 2006b), their historical significance in inflating capital markets and in disturbing real economy in the long term (Toporowski 2000), and their various effects on states, solidarity and numerous other more specific themes especially in Clark’s (e.g. 2000, 2003) works. Although focus on European pension investments has raised much interest lately (see e.g. Clark 2003, Clark & Wójcik 2007, Engelen 2003, Dixon & Sorsa 2009), the mainstream literature on pension funds is focused on quite specific questions concerning pension funds that are Anglo-American in their institutional location and organisational form. For instance, Anglo-American pension fund investment management has gained much focus in terms of fund governance (Ambachtsheer 2007, Clark 2004, Boeri, Bovenberg et al. 2006, Clark & Urwin 2008b, Cocco & Volpin 2005), pension fund investment regulation and changes of interest in it in the formal-political system (Clowes 2000, Clark & Wójcik 2007, Roe 2006, Langbein 1997), more general habits, rules and norms framing and resources available to fund governance and decision-making practices (Clark 2000, Clark & Urwin 2008a), investment decision-making (Clark, Caerlewy-Smith et al. 2006, Clark & Strauss 2007, Mitchell & Utkus 2004), and fund investments’ general effects on corporate governance (Clark & Hebb 2004, 2005, Clark & Wójcik 2007, Gillan & Stark 2003, Del Guercio & Hawkins 1999, Hawley & Williams 2005, Hebb 2006).

Yet, despite this increasing interest in pension funds in the social sciences, the topic has gained very little attention in social policy. In social policy in general and in European social policy in particular the interest in pension investments has been almost missing (see next section) although most European countries have introduced elements of funding even to their statutory systems (Immergut, Anderson et al. 2007, Vidlund 2006). For social policy analysis, the usage of pension savings capital has been regarded as programmes that provide income retirement benefits or at best buffers for pension financing. Who gets to control these savings, how the control of these savings is arranged, and what are the aims and outcomes of investments have not been important questions in the debate. In brief, comparative social policy studies have by and large focused on the 'liability side' (e.g. social functions, pension benefits, fund ownership) of pension funds. We argue that while it remains essential for social policy to focus on benefit delivery, these studies should be complemented and completed with an analysis on pension fund investment-making – the 'asset side' of pension provision. Indeed, funded, partially funded or prefunded pension systems are not only about generating returns to improve old-age pension benefits or to decrease pension costs. They are equally much about financial pension power: about generating vast pools of capital that can be used in various different ways to achieve different kinds of policy targets. We argue it is at best arbitrary and at worst inconsistent to focus on liabilities and put assets aside when studying and especially classifying pension systems and histories in social sciences.

The purpose of this paper is to fill some of this gap by providing better tools for understanding on what kinds of social, financial and economic purposes and with what kinds of means and mechanisms pension assets generated by pension schemes are managed. Or, what pension fund governance is and how it changes over time in specific institutional environments. Although there has been some interest towards this topic in social sciences, Monk (2009) argues that the attention has been 'scant'. We argue that social policy as a discipline can offer many theoretical tools for making this attention broader and more complete.

In the next two sections of the paper we discuss our theoretical framework including elements from governance studies and historical institutionalism in social policy and, in order to further increase the analytical depth, from more nuanced institutionalist perspectives of sociological institutionalism. We adopt a comparative perspective in order to disclose nuanced differences in the development of governance in different institutional regimes. We have chosen two sample cases. Our analysis is focused on the development paths of investment governance in Swedish ATP/AP/PPM and Finnish TEL/TyEL, both mandatory earnings-related pension schemes. The time period of the analysis reaches from the establishment of these systems in late 1950s and early 1960s to the recent reforms of last few years.

We have selected these two countries because they have been traditionally classified under the very same variety of capitalism (mixed but primarily coordinated market economies) and welfare regimes (social democratic, Nordic). Moreover, the funds accumulated by the legislated pension schemes are relatively massive in these two small economies – especially in Finland where the second pillar pensions play little role – and the investment policy is of the utmost importance not only for safeguarding future pensions but also in, if not 'helping the national economy operate smoothly' (Kangas 2006), at least avoiding economic dysfunctions. Although some benefit levels[2], pension system parameters such as relative importance of pillars and tiers, and individual pension scheme administration features are somewhat different, these countries still look quite similar from the social policy paradigm and human development perspective in the beginning of the 21st century. But time and history are interesting factors between these two countries. Take financial history: Sweden is a former European superpower with wealth and much financial resources available in different points of history, whereas Finland, a part of Sweden until the very beginning of 19th century, remained at least until 1960s a poor country – best classified as developing country (Niemelä & Salminen 1999) – with a major lack of capital. More recently, these countries have also chosen very different kinds of development strategies in their pension regimes.[3] These two countries present an interesting example of similarity in many aspects such as welfare state-building and of differences in history of economic development and pension reform at the same time. We argue that if relevant differences in investment governance over time can be found, it is essential for the academic community to critically re-evaluate the conceptions favouring regime similarity.

We start the paper with a section discussing the missing agenda of pension fund governance in social policy. In the two following sections, we introduce our institutionalist theoretical framework and methodology, and the methods and data used in the study. The three proceeding sections are dedicated to the comparative

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[2] Finnish pension regime has been sometimes considered an exception within the social democrat welfare regime due to lower compensation rates.

[3] The starting point was different as well. The Finnish pension regime development until 1990s resembled much more the Danish development starting from first and second pillar pensions than the Swedish path starting from first pillar pensions (for the modernization process of Finnish social security from a comparative perspective, see also Niemelä & Salminen 1999, Niemelä, Salminen et al. 1993).

analysis of Finnish and Swedish pension fund governance. The first section presents the early institutionalisation of pension investors and asset management. The second discusses the development of investment methods and their institutional environment from the early years to the major shifts in investment paradigm in the 1990s and 2000s, which is the topic of the third section. The last section of the paper is dedicated to conclusions drawn from our enquiry.

Pension fund governance and pension regimes

The examination of pension reforms in the mainstream comparative social policy literature has highlighted the changes across various institutional features of the pension systems such as eligibility rules, indexation, replacement levels, funding, payment but also the introduction of new (usually private) pension funded schemes (e.g. Immergut, Anderson et al. 2007, Vidlund 2006, Bonoli 2003, Ebbinghaus 2006, Hinrichs & Kangas 2003, Schmähl 2007). Despite the fact that social policy accounts for the changes in terms of introducing or changing funding and its role in pension programmes, the debates are concentrated on the impact that these changes will have for retirement income and whether they remain adequate or able to meet their social policy targets. The definition of these targets and their rationale is vital in our understanding on pension regimes. For example, Esping-Andersen (1990) famously compared the ability of the various pension systems in providing substantial retirement income and categorised welfare states according to their de-commodification levels. Within his classification, the Scandinavian welfare states topped the levels and were regarded as 'universalist', providing generous replacement levels on the basis of citizenship.

The theory of welfare regimes has provided a legacy of undermining pension investments as a fundamental variable in classifying pension regimes. For example, in one recent study (Soede & Vrooman 2008), the existence of funding was considered one among the 34 quantitative and qualitative variables for analysing the variation of the mandatory parts of pension systems without any focus on how massive assets generated by the regimes were used. While there have been several critiques on Esping-Andersen's classification and several authors have provided alternative welfare state typologies (Bonoli 2001, Castles 1993, Ferrera 1996) only few scholars have highlighted the importance of creation of 'capital-actors' in developing pension programmes (for exceptions, see Swenson 2002, Mares 2003). Yet, none of the aforementioned studies have considered that pension programmes do not merely represent pools of savings or financial capital but a substantial capital that allows funds to become important economic actors whose actions can potentially affect the original typology.

But how exactly could we theorise this 'asset side' of pension regimes in social policy? One possibility is to adopt a top-down theoretical perspective. For example, one could to try to link debates on varieties of capitalism (VoC) to the welfare regime debates discussed above. The VoC literature suggests that pension funding is always embedded in a broader financial system with its various characteristics (see Clark 2003) in which pension assets exemplify a variation of investment strategies and allocation of savings (Jackson & Vitols 2001). Traditionally, continental European and Anglo-American financial systems are distinguished as 'bank-based' and 'market-based', respectively (Zysman 1982). The distinction is integral to the VoC literature since Coordinated Market Economies (CMEs) supposedly benefit from patient, long-term and low risk financial capital investments, while Liberal Market Economies (LMEs) benefit from short-term and high-risk capital investments.

The 'VoC argument' is based on two key assumptions. First, in both CMEs and LMEs there is an institutional complementarity[4] between functionally distinct domains that reinforce and exhibit the advantages and disadvantages of each ideal type, rendering these combinations efficient. The second key assumption underlying the argument is that this institutional complementarity reinforces the functions of each type and thus is resistant to change (Longstreth 2006). In our case, the VoC argument would suggest that CMEs are less likely to shift towards a market-based Anglo-American style of channelling and management of pension savings with short-term perspectives and high risks, and rely more on long-term investment capital. The management of pension funds is not only expected to meet the requirements of the institutionally complementary domains but any possibility of path departure would be constrained due to legacies in governance and investment horizon.

The combination of two such broad theoretical debates is of little analytical value unless elaborated in detail. We can, for example, simply take social policy objectives and institutions in which they are embedded in welfare regimes as parts to the institutional complementarity framework. But, to mention a few theoretical puzzles,

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[4] For a discussion on the notion of institutional complementarity, see *Socio-Economic Review* issue 3, 2005

how could we address highly diverse and complicated relations between the institutional complementarity systems and what kinds of hypotheses could we draw on the relationships between the two frameworks? Although we recognize it is possible to criticise both theoretical debates for their shortcomings or questionable assumptions[5], we find the lack of rigorous methods and methodology a fundamental obstacle for a top-down inquiry in which these two debates are combined. In other words, we need inductive research results on hypotheses and complementarities before such a task to be done. In this sense, one goal of our work is to bring new hypotheses for VoC and welfare regime debates to test.

Yet, it must be noted that our research questions have been affected by these two theoretical legacies. As Hall and Soskice (2001) highlighted, in 'the sphere of social policy, the varieties of capitalism approach is helping to open up several new research agendas' (p. 51). In order to find solutions for our research question, we compare the similarities and differences between two welfare regimes and market economies that are usually categorised within similar groupings, Social-Democratic and CME. As our analysis shows, institutional complementarities can be assembled in very different manners and developments are not necessarily related to static regime complementarities but to more dynamic transitional and transnational processes. Indeed, institutional changes in European pension funding have in general presented both continuity and change that are not necessarily located in those institutional settings (e.g. pension benefit schemes) to which complementarity is supposedly

[5] The VoC argument is, to mention just few issues, providing many questionable assumptions on dynamics of asset management which in Anglo-American economies is hardly allocated (McGill, Brown et al. 2005) and governed in an innovative manner (Ambachtsheer 2007, Ambachtsheer, Capelle et al. 2008), and whose investment time perspectives and targets vary very significantly (Clark 2000, Clark, Hebb 2004) from the stereotypical assumptions.

attributed in VoC or pension and welfare regime classifications (Dixon & Sorsa 2009).

In contrast to existing debates on pension regimes and varieties of capitalism we adopt a more inductive and actor-based approach to *governance*. We use the term as an analytical concept and tool as discussed and developed by Carmel and Papadopoulos (2003). Here, governance includes two analytically distinct yet theoretically paired aspects of formal (heuristically: what is to be governed) and operational governance (how is it to be governed). The formal aspect recognises what is the object of governance, in our case pension savings turned assets (e.g. as independent financial investors, as insurance companies, as nationally steered financing projects, as passive buffers for the pension scheme) and how different subjects (e.g. unions, employers, financiers, state actors) have been and are able to determine this object of governance. The operational aspect captures the means (e.g. investment decision-making arrangements and who participates in them, direct regulative restrictions and rules concerning allocations, risk management etc.) with which investments are steered. In order to address the methods of steering we use so-called new institutional theory highlighting regulative, normative and discursive aspects of power (see next section).

Our approach avoids assuming too much about pension assets and their investments, and provides a rather inductive account on the rationale of pension investments in different political economies rather than try to set them in a broad theoretical context at once. This paper is thus about the meso-level social and political foundations of institutional investments and, more generally, of modern finance. However, in order to be able to recognize investments (unless they are explicitly mentioned as such in the data), we need some heuristic definitions for the research object. Here, we are looking at the *usage of assets*. Assets – literally in accountancy terms – refers here to the specific legally defined actors with particular financial capabilities generated by the statutory pension system design. Usage refers to the ways in which these assets are vested in different targets and transformed to different kinds of monetary flows and ownerships of financial instruments. Although our data does not include particular pension fund books and accounts, we find this accountancy-inspired demarcation very useful, since it very effectively leaves pension benefits and other already well-documented liabilities outside governance analysis unless they have direct effects on the assets or their usage.

Historical Institutionalism, Governance and Institutional Change

The point of departure for institutionalist thinking is that all actions, individual and collective, are embedded in institutional forms: social structures that have reached a high degree of elasticity and resilience, and that constitute, enable and constrain actors' courses of action (Scott 2008). Institutions are elastic social structures that determine what expressions and directions actions driven by actors' interests, also affected by institutions, will and may take (Swedberg 2003). They are heuristically located in the institutional environment – the community-wide informal conventions, customs, norms, and social routines, and the formal structures of rules and regulations which constrain and control behaviour – and in the institutional arrangements – the particular, governed organizational forms such as markets, firms, labour unions, regulatory agencies, pension funds that arise from the institutional environment (Martin 2002). Institutional structures and dynamics are not determined functionally but are relatively autonomous (i.e. they have their own 'laws of motion') – but neither are the patterns of economic behaviour exclusively determined by institutional rules nor can they be predictably manipulated through institutional change (Peck 2000). Institutions can be summarised as 'residues of conflict and structurations of power' (Korpi 2001).

There have been three quite separate traditions in institutionalist thinking: historical institutionalism (of public and social policy), rational choice institutionalism (of economics), and sociological institutionalism (of organisation theory and agency theory) (see e.g. Martin 2002, Campbell 2004, Scott 2008). Our research setting that is focused on changes in policies and governance fits well in historical institutionalism, but in order to improve the ontological depth of the argument, we use a theory of different types of institutions primarily used in sociological institutionalism and organisation theory. We adopt a historical institutionalist framework in order to account for development paths of governance and to enable comparative study in a time- and event-sensitive institutional change perspective to institutional forms, but we also want to highlight the importance of agents, individual actions and change processes by adopting more nuanced ontological approach to institutions as matters of agency. Indeed, the current institutional theory puts very much weight on individual actions, actors and their decisions made. Most current institutionalist thinking suggests that actors 'make use' of institutions differently, they can choose to act otherwise, and to follow one institution instead of another (see e.g. Crouch, Streeck et al. 2007). Institutions are created, renewed and maintained only by *actions* based on *institutional forms*. For example, a law is only a law (i.e. institutional form), not an institution if nobody acts according to that law. One cannot read a regulative institution from the letter of law and the question of what is 'according to the law' fully depends on the usages of the form in institutional sense.

Recall the three issues needed for our analysis. In terms of structure, for Scott (2008), institutions 'are comprised of regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life'. We follow Heiskala (2007), for whom these elements or don't appear as pillars but different types of institutional forms according to their vocabulary and to the logic of their enforcement. The broader model of explanation always includes the narrower one, but they can be differentiated in analysis if it has analytical value, which is often the case (see Gronow 2008). The types can be heuristically summarised as follows (e.g. Scott 2008, Gronow 2008, Hodgson 2006).

The regulative view concentrates on legally sanctioned and other typically formal rules, which coerce individuals to behave in line with institutional ends because compliance is instrumentally rational (e.g. are not sanctioned, provides incentives) for actors. Regulative institutions include coercive power and sanction non-compliance, but they also give a mandate for the compliant no one can legally contest, essentially this regulative view embraces institutions as the 'rules of the game' (see North 1990). Laws are a paramount example of regulative institutional forms. Normative theorists, classic sociologists in essence, argue that purely instrumental rationality is not applicable whenever internalised moral issues enter the picture. These norms – expectations, values, duties and other normative things explicated to the actor or internalised in socialisation processes – weigh on actors as moral obligations that have to be fulfilled. Normative institutions rely on moral obligation. Expectations and authority systems are institutional forms, but they become institutions only when actors internalise them and really do act accordingly to the obligation implied. Cultural-cognitive or discursive[6] theorists, often inspired by phenomenology, propose that even moral obligations are just one set of cultural schema, and emphasize the nature of institutions as knowledge schemas that are common beliefs about the nature of social roles and situations. The mechanism behind these institutions is mimesis, i.e. actors act in certain ways because these ways promote some understanding of the world and make actions understandable. In discursive institutions, power is a more complex matter and they represent categories, typologies, schema and scripts. Put simply, it is about power of determining what is possible in speech acts.

We acknowledge that the account of the institutional theories discussed here is not exhaustive (see Gronow 2008 for discussion and review), but it suits our purpose because it can address different types of power – the second issue – present in different types of institutions and institutional forms. Moreover, we regard governance as attempts to build or change institutions as such, not merely to create new institutional forms such as laws, policies, or discourses external to targeted actors but also to use power to get agents to act accordingly. Yet it must be noticed that our

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[6] Gronow (Gronow 2008) has re-titled cultural-cognitive institutions as discursive institutions because cultural-cognitive institutions are not only based on knowledge or 'culture' in sense of a given system of meanings and their relations, but they are in nature discursively reproduced reciprocal typifications and typified knowledge rather than just any simply given typification or any piece of knowledge.

research question is one of (social) policy, which is why we are not looking at bottom-up changes in investment practices. The policy perspective implies that we study the three kinds of institutional forms that define pension assets by constituting, enabling and constraining actions, and the governance perspective the attempts to enforce, dismantle and change them both as the operational steering of the actors and as the formal governance defining agencies. Furthermore, the institutional change perspective implies that we are definitely interested in the outcomes that serve as the criteria for successful policy change.

Here, we come to the third issue: change. Institutions simply change if institutional forms or their usage changes. But why exactly do institutions born and change, what are the change processes like, and who is able to produce new forms and usages? Historical institutionalism currently emphasises the role of politics in time and the importance of sequence and feedback processes. Yet, the early advocates of historical institutionalism tended to regard change as somewhat external to their analytical schema. Actors were mostly able to provoke slowly moving, incremental change that would have to be triggered through times of crisis or critical junctures (Pierson 2000, Ebbinghaus 2005). Rather than focusing on institutional continuity (Pierson & Skocpol 2002), the late historical institutionalism focuses on the issue of institutional change with authors such as (Hacker 2004). Streeck and Thelen (2005) attempted to provide a theoretical framework that allows the explanation of institutional change so that it is neither restricted to external pressures nor slow in movement. While not dismissing the effects of exogenous pressure, the late historical institutionalism literature highlights that change can also be provoked internally through political contestation. Instead of highlighting actors and structures independent from each other, Streeck and Thelen argue that actors' conduct is conditioned by the institutional framework but at they same time they seek ways to circumvent or subvert the institutional rules according to their interests. As those using the concept of 'institutional work' (Lawrence, Suddaby et al. 2009) would add, these circumventions, subversions and all actions aiming at creating, maintaining and disrupting may be an intrinsic part of the institutional framework as such.

In the version of historical institutionalism used in this paper, institutional legacies are a central feature in structuration of power asymmetries, but should not be understood as path dependent drivers that nurture inertia or stability but instead as actively reproducing power dynamics that either enable or constraint actors' ability to mobilise resources and exercise power (Roumpakis 2009). Streeck and Thelen (2005) provide a typology on how institutional settings come to be changed: settings can receive additional components (layering), be redirected to new purposes (conversion), fail to catch up with emerging needs (drift), and break gradually down (exhaustion). But why is, for example, such change possible in one policy area or country rather than another? The reason this question seems to fundamental is that Thelen and Streeck do not adequately address the mechanisms of change although they provide a strong analytical device for finding rationales and objects of changes. Here, we use an actor-based examination of the role of power, the power asymmetries among key actors, and their ability to trigger institutional change in terms of change processes by using the notions of 'institutional entrepreneurship' and mechanisms of institutional change discussed by Crouch (2005) and Campbell (2004, see also Crouch, Streeck et al. 2007 for discussion).

Institutional entrepreneurs are the actors with most capabilities to affect their networks in introducing change in their actions. Their capability to innovate is much dependent on the location beyond the immediate institutional environment they operate in. If they have good ties, networks and contacts, and broad repertoire of ideas with which to work, they are more likely to cause institutional change. The governance approach in this paper suggests that actors with power asymmetries and different strategies are seen directly to attempt to shape the institutional contents of pension investments, but so that they strategically prioritise different aspects in their entrepreneurial efforts. Moreover, institutions themselves condition institutional change as different institutions vary in diffusion and path dependency. *Diffusion* denotes the social spread, both horizontally and in depth, of institutions without changes in content. The scope of diffusion indicates the relative strengths of different institutions. *Path dependency* refers to phenomena in which chosen path rewards more decisions to follow it than changing it (i.e. path departure) or, more generally speaking, in which institutions significantly constrain future choices with some other mechanisms than direct incentives, for example narrow discursive frames for cognitive reasoning that give power only to those in control of the frame.

Campbell highlights two essential mechanisms for institutional change, in which recombination of different institutions and new ideas create new ones. *Bricolage* refers to situations in which actors combine and recombine existing institutional principles and practices thus making innovations either with substantial bricolage (instrumental recombination) or symbolic bricolage (reframing). Bricolage is the main mechanism that helps to understand why institutions both constrain and enable action. Whereas bricolage is the mechanism of combining existing and acknowledged institutions, *translation* is the mechanism in which new ideas, when brought in actor's knowledge, are enacted and combined with existing institutions. Translation is a complex phenomenon that requires careful empirical attention. It may include various mechanisms of and institutional interplays between different types of institutions.

To sum up, we use the terminology of change introduced by Streeck and Thelen – layering, conversion, drift, and exhaustion – in order to explain rationales and objects of policy, governance and institutional design in change. But we also pay close attention to the actual change processes by looking at how different kinds of institutional entrepreneurs produce changes to institutions in Campbell's terms – bricolage and translation in change processes, diffusion and path dependence of institutions. We are looking at both these kinds of change processes in changes of regulative, normative and discursive institutional forms and their usage, but only in policy level implying that there must be an effort, explicit or documented, by some actors to change institutions.

Methods and Data

The data used in this enquiry consists of publicly available material on the two pension systems in English, Swedish or Finnish. The analysis of the period until 1990s relies mostly on second hand information, primarily previous academic studies, whilst data on more recent developments includes pension system stakeholder (e.g. ministries, labour market organisations, interest groups) reports and documents, material from fund websites, and preparatory committee reports on pension reforms on the period. We have used a snowball method in gathering this data, starting from basic descriptions and established academic studies of the systems and ending up with more detailed fund- or policy-specific documents. The Finnish pension system, pension politics and their relationship between the Finnish financial system are not only colorful and peculiar but also quite well-documented in Finnish and reasonably well summarized in English (Kangas 2006, fully in English: Hinrichs, Kangas 2003, Niemelä 1994, Salminen 1987, Pentikäinen 1997, Varoma 1997, Kangas 2007, Hietaniemi, Ritola 2007). The same applies to the Swedish case – especially to the birth of ATP pension scheme and its various reforms, which have been one of the best documented policy reforms in the social policy literature (Esping-Andersen 1985, Korpi 1983, Heclo 1975, Baldwin 1990). The data on the recent Swedish pension reforms are drawn primarily from the annual reports that the AP funds have published during the last 7 years (2002-2008). The more recent Finnish data consists of various workgroup reports and government bills behind pension reforms (e.g. HE 241/1996 1996, HE 255/1996 1996, Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä 2006, Louekoski 2005, Rajaniemi 2007, Kausto 2002)

Our method is best described a descriptive documentary analysis. However, we use some elements of content analysis, which increases sensitivity towards different types of data and different discursive understanding in each period of time. The standard process of content analysis consists of theorisation, conceptualisation, operationalisation, coding, sampling, reliability checking and reporting (Neuendorf 2002). By using institutional theory, we are committed to looking at regulative, normative and discursive social practices and forms that each has different logics by type from our data. The conceptualisation is made by looking at explicit expressions concerning pension investors, investments (as assets and their usage) and forms and practices of investment decision-making in this theoretical framework. In order to increase the inductive nature of the study, we aim at keeping operationalisation to minimum and to rely more on particular discursive contexts of material studied – in the data used usually very explicit and quite technical in nature. The coding and reporting of results is made by using the terminology of institutional change discussed in the previous section. Because we mostly rely on existing interpretations and historical narratives, we are not using sampling or reliability checking.

We believe that by adopting this method, we can provide a valid descriptive understanding on institutional changes in pension fund governance in both countries studied. We recognize that our approach is by no means definitive in explanation. In case of institutional theory this would require interviews, observation or at minimum surveys; personal experiences and narratives that are impossible to conduct especially in case of the earliest periods of our enquiry. Thus it rather provides hypotheses to be further tested in empirical, theoretical and historical enquiry. It must be noted, however, that we are conducting a comparative analysis, which requires special attention to some issues.

Firstly, our analysis is only partial, focused on the first pillar funds. We recognize that in order to conduct a full comparative analysis on the whole ‘regime of pension investments’, the privately controlled second-pillar funds in Sweden, other Finnish funds generated by mandatory schemes, and third pillar funds in both countries need to be taken into account in analysis. Furthermore, the two systems studied are not fully commeasurable. Both schemes studied are first pillar, second-tier, mandatory, partially funded public pension systems. In functional terms, the Finnish funds studied manage only the assets generated by pension contributions concerning the most private sector employees whilst the Swedish funds manage assets generated by statutory contributions covering all employees and guaranteeing only minimum earnings-related pensions (there's no benefit or contribution ceiling in the Finnish system). The funds are separate and independent from national budgets, although accounted in them in both countries.[7]

The Finnish earnings-related pension system has been called a hybrid combining some elements of the Swedish model – basic pension security for all with earnings-related benefits on top for those with an employment record – and the decentralised Central-European 'corporatist model' (Hinrichs, Kangas 2003). For heuristic purposes it could be argued that the second pillar of Swedish pension regime is mostly legislated in the first pillar in Finland. In contrast to Sweden, where varying employee needs and the ceiling in statutory pension levels generated a complex and fragmented system of supplementary pensions arrangements, the Finnish regime remained almost fully based on statutory pensions (Lundqvist 1998). In effect, there is almost only first and third pillar pension provision taking place in Finland, whilst second pillar provision based on nation-wide labour market agreements and covering 90–95 % of workforce is of great importance in Sweden. In brief, our analysis compares two sets of assets that cover mandatory liabilities not only for different groups of population but different in the nature of total pension provision as well.

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[7] In Finnish case, there is an important reason for this, because the arrangement would otherwise be subject to EU regulations (most importantly life insurance directive), which were avoided due to negotiated special arrangement when Finland joined the EU in 1995.

The second issue is mutual influence. As the literature strongly points out, the birth of Finnish TEL system was heavily influenced by the birth of Swedish ATP system. For example, the employers' associations communicated regularly and the Swedish employers' negotiators sent letters on their experiences to their Finnish counterparts. In more general terms, Finland has been quite keen on following its Western neighbour in social policy and thus we must recognize these two development paths are not independent. However, this less applies to the different kinds of development paths of the two pension systems studied. Thus the comparative analysis provides an interesting question very specific to these two arrangements: why did Finland end up with so different kind of a scheme? Why did the Swedish influence vanish in earnings-related pension provision? And indeed, why did Sweden opt for paradigmatic reforms whilst Finland relied on parametric ones (Vidlund 2006, see Hinrichs, Kangas 2003)? We argue that the initial dependency between the two systems is not an obstacle for comparative analysis but rather an interesting variable providing even more grounds of comparative historical institutionalist analysis.

The Birth and Institutionalisation of Pension Investors

The introduction of the Swedish earnings-related pension system has been one of the best documented policy reforms in the social policy literature due to its importance in setting an encompassing pension model and exemplifying the power struggle between labour market organisations, Social Democrats and bourgeois parties (Korpi 1983, Esping-Andersen 1985). This struggle was not only a battle over the issue of redistribution of the pension programme costs and benefits, but also an important struggle over the creation of publicly controlled pension funds. The flat-rate benefits provided by the Basic pension programme that was established in 1948 had to be reconsidered because it was not regarded as suitable to the 1960s socio-economic conditions. The birth of a new ATP programme was related to a change in discursive understanding over the economic role of pensions and to a drift in an old institutional arrangement.

The pension reform was the main issue of the 1958 elections and it involved the mobilisation of power resources on behalf of both societal and market actors. Both Conservative and Liberal parties rejected the idea of a legislated pension scheme and favoured a voluntary scheme based on bargaining. The agrarians did not have any particular interest in the new scheme and their electoral power was in decline due to industrialisation. In an effort to secure broad agreement between social groups, the central labour union (LO) proposals for the creation of an earnings-related scheme favoured white-collar employees (Esping-Andersen 1985). The social democratic party (SAP) proposed a prefunded scheme, in which a ‘buffer pension fund’ was to be established via the collection of contributions exceeding the direct liabilities of the system in order to secure the input and output transfers of the system before the new ATP scheme would mature. The funds would accumulate assets that were to be invested in bonds after two years from its enactment. The response of the central employer association (SAF) was an organised counter-mobilisation that was electorally expressed through a coalition of bourgeois (e.g. Conservative and Liberal) parties. The previously divided bourgeois parties now formed a coalition and managed to stop the legislation of the pension reform in 1958. As a response to the new political tension, SAP provoked elections. The results gave SAP only plurality but not majority in the parliament. With the political support of the Communist party and the defection of a working-class unionist of the Liberal Party, SAP managed to pass the law with one vote majority (Heclo 1974). Labour market disputes between LO and SAF were displaced by party politics and class mobilisation.

The reform established funding, a new, non-local element to Swedish pension provision. The partial funding was primarily justified on grounds of intergenerational equity (i.e. lowering contributions at some point of time), but also with the possibility to answer to prevailing shortage of capital. It was also agreed that the schedule of contribution rates 'should be reviewed and adjusted -- since it was not the main intent of the Riksdag to use the Fund as an instrument of forced saving' (Daly 1981).The introduction of ATP also replaced some of the old private second-pillar arrangements. The institutional change that took place when ATP was born was a matter of layering and translation rather than replacement of old institutions with completely new ones when looked from the pension provision perspective. From asset perspective, however, it was completely a new institution.

The formula proposed by SAP and later enacted was 'national supplementary pensions scheme' (*Allmän Tilläggspension,* ATP) that was financed solely by employers. The first tier of the Swedish first-pillar system remained a universal flat-rate benefit (*Flexiblare Pensioneringssystem,* FP) funded by general taxation, and topped by the second-tier ATP scheme. The ATP pensions 'were designed to offer compatible, if not better, pension benefits than the private sector' (Blyth 2002). The earnings-related scheme was financed by the employer contributions, based on PAYG system, and provided a DB scheme that covered almost 90% of the working population and offered a 66% replacement rate (Esping-Andersen 1985). Both schemes were indexed with the consumer price based index. The Basic pension scheme was financed by the employers (around 6%) and general revenues (2%) (Sundén 2000, Könberg, Palmer et al. 2000) whilst employers contributed 13% of wages to the earnings-related pension scheme.

The organisational form of pension assets became a national foundation independent of the crown. However, The Pension Committee that had discussed different options 'was aware that the very size of the fund, if it were centrally controlled as a single unit, might cause it eventually to dominate the capital market' (Daly 1981). The end solution was to divide the foundation to three funds each having their own Board of Directors (BoD). The AP1 received and administered contributions from local and national governments in their role as employers, including publicly owned corporations, while the AP2 handled the contributions from private employers with at least twenty employees. The third one, AP3, received and administered the contributions of self-employed persons, as well as contributions from firms with less than twenty employees. The control of the funds was based on normative agreement on that the BoDs would be tripartite, with board members from trade unions, employers and the 'public interest' (in form of members appointed by the central or local governments). The AP1 board consisted of three representatives from local governments, unions and employers while in AP2, unions and employers obtained each four seats with central government appointing only one (Pontusson 1992). In the AP3 fund board, unions had four seats, employers' association one, small employers three, and finally central government one. The three AP funds exemplified remarkable institutional continuity.

However, the first pressures for change emerged from the radical demands of wage-earners in the late 1960s. Yet the pressures did not change the already-existing funds but only created additional ones, the Fourth AP fund and the famous ATP-linked wage-earner funds that were meant to 'complement the trade union solidarity wage policy, to increase employee influence over the economy and to counteract the degree of wealth concentration resulting from the private ownership and control of the forces of production' but also representing a '"Kaleckian" "institutional accommodation to full employment' by ensuring employees' share in accumulation, thereby securing high profitability and investment through enhanced corporate liquidity and provision of additional risk capital' (Whyman 2004).

The Finnish statutory employment-related pension scheme for private-sector employees (TEL) was established a few years later in 1961 and enforced in 1962. There had been some relevant statutory pension arrangements, the most important being the national pension scheme from 1937 to 1956, and the dominant private earnings-related pension schemes, but new first-pillar basic pension scheme (1957) and TEL was meant to and replaced them effectively. The basic pension scheme, which changed prefunding into pure PAYG in 1957, was 'a victory for and income transfer in favour of the agrarian population' (Niemelä, Salminen 1999), whereas TEL 'began an era in which the labour market organizations were actively involved in the shaping of social policy and development of social security based on the insurance principle took centre stage' (p. 42). Employees on short-term contracts (LEL) (1961), farmers (1974), other self-employed (YEL) (1974) and artists (TaEL) (1986) later got their own separate mandatory programmes, and TEL, LEL and TaEL schemes were merged into one scheme (TyEL) as late as in 2007. The pension programmes for public employees (one for central government employees and one for municipal employees) that existed before TEL were not merged with TEL but remained separate entities. In this paper we are focused only on the TEL/TyEL funds in order to although we recognize earlier and other funds have been essential as well in Finnish economic development (see Kangas 2006 for more discussion).

The TEL system design was based on four-year-long committee preparation, which included one ministry, one Social Security Institution (KELA), and six labour market organization (three employees', two employers' and one agrarian) representatives and three members of parliament from government-forming political parties. There were three initial main options for a new scheme: private provision with voluntary arrangements (a reform of the old scheme), mandatory centralized system executed by reformed KELA, and decentralized mandatory minimum scheme with possibility to provide additional pension. Although insurance companies were asked to help in drafting a new scheme, they refused to join the committee and deemed mandatory pension insurance 'impossible'. There was nearly a two-year stop in the committee operations due to dissent on financing arrangements and more general resistance by the employers towards statutory schemes. (Salminen 1987.). The final solution, the third option in the list, was finally accepted by the employers because of decentralization and private provision of otherwise mandatory pensions.

From a pension provision perspective, the birth of TEL was a matter of translating (by legal force) the new statutory variables to the existing company-based arrangements (Lundqvist 1998). But the interpretation is somewhat different from investment politics point of view. The employers wanted to ensure that the state has neither control over nor interest in decentralised fund investments or any other features than pension benefit levels and securing pension adequacy by regulation, not control. Whereas the Swedish labour union demands included universal pension and funding under public control (Esping-Andersen, Korpi 1984), the Finnish demands were very different in case of the latter option. In Sweden, LO had turned down the employer demands for decentralization primarily because it wanted to ensure the funds being available as public tools for economic policy. The employer opposition towards this solution was so stark in Finland that the main labour union SAK did not even seriously consider making the option an essential demand. The reason for the different outcome was not only that the labour unions were much weaker than their Swedish counterparts or that the political left was quite fragmented, but also that employers were convinced about their financial benefits from the decentralized system after quite carefully studying the Swedish reform (and the failure of employers there) and communicating with Swedish employer organisations (Salminen 1987).

The committee report was turned into a parliament motion but not a government bill because the agrarian minority government wasn't willing to give one: they also left a minority report to the report. The bill was directly opposed only by the extreme left (SKDL), processed very fast (in two months), and put in effect as law in 1962. The funding element was based on broad consensus regarding shortage of financial resources as a primary obstacle for investments and job creation in the Finnish economy, and high inflation a great incentive for borrowing, so time was politically ripe for creating large pools of capital (Pentikäinen 1997). The Finnish scheme was basically born a public-private-partnership. The statutory scheme was and is executed by competing private pension insurance companies (PICs, *työeläkevakuutusyhtiö*), company pension funds (*eläkesäätiö*), or industry-wide pension funds (*eläkekassa*) according to employer choice. Traditionally large companies have had their own pension funds, whilst most companies and almost all small companies have insured their employees through PICs (Puttonen, Torstila 2003). The TEL system in general halted the growth of pension funds, which provided pensions for twice as many employees as industry-wide funds and six times more than insurance companies during the 1950s (1997)

There was an interesting political struggle in mid 1960s when the agrarian party tried to merge the TEL system with the basic pension provision scheme, creating a pension system fully in public control. But it was not the employers, previously very worried about taking funds under public control, but the workers who were outraged by this attempt and gave signals that were then interpreted as threats of general strike (Pentikäinen 1997, p. 90). The second pressure for change in Finnish pension fund governance emerged in early 1970s, which suggests that the institutionalisation of TEL funds to their elastic forms took a while longer than in Sweden that was however more prone to layering. In the so-called social partners' pension commission of 1971, the labour union SAK demanded that the parity principle (both labour market parties should have equal representation in all pension providers' administration) should be reached to all pension providers and that they should participate more in asset management. Although suffering from internal dissent, SAK demanded the automatic premium lending system to be ceased because the funds were supposedly used to cover operating costs of companies rather than productive investments. It also urged company funds to be terminated and to increase the representation of labour unions in large pension insurance companies. In more general terms, SAK wanted to reform the Finnish earnings-related asset management regime more similar to Swedish regime.

The issues were renegotiated in the general incomes policy settlement (TUPO, a tripartite economic policy-setting arena) of 1974. It was agreed by both labour market parties in the settlement that labour market party representation would be negotiated in coordination by *Työeläkelaitosten liitto* TELA (now *Työeläkevakuuttajat*), the pension provider interest group. Investment policies and principles were also to be discussed in advisory boards, both general (common lending commission LUNE) and provider-specific. From the beginning of 1975, each PIC ought to have four employer and four employee representatives in their supervisory boards (selecting the boards of directors), and two from each in the board of directors. (Salminen 1987.). In industry-wide funds, the employers and employees could both nominate half of members of board, whilst in company funds the employers nominate two thirds of the members. This disparity was decreased by the requirement that in some fundamental issues (not including investment policy) decisions required five sixths majority of the votes.

The main difference in the birth of the arrangements in the two countries was quite significant in terms of whose and what the assets generated were in normative and regulative terms. The difference in formal governance was a visible result of different conflicts in these two countries. In Finland, it was not simply a struggle between the right and the left with labour market organisations each taking their sides as in

Sweden, but for example between industry workers and agrarian population and within the left as well. The Finnish solution of relying on regulated corporate governance rather than public control and on multiple alternatives for privately owned provision rather than centralised public organisation was a major contrast to the Swedish solution. Whilst the former set the markets in parity presentation but employer control against politics, the latter set politics against markets, which served labour union interests very well. Both arrangements relied on normative agreements on having both labour market parties in fund administration. But Finland gave less power to social partners and excluded all government control, and the Swedish fund investments remained incredibly independent of political coups. What is most important is that both solutions were relatively stable in mandates for administration: diffused institutional paths of decision-making, which makes normative and discursive transformations concerning investment methods and tangible constraints for investment behaviour strong in explaining altering investment behaviour. In Swedish case, however, these transformations were more open for public political struggles – which indeed ended up first to layering and later to a drift – whilst the Finnish system that still exists constrained policy to investment boundary conditions.

From National Finance to Financial Capitalism: Investment Methods, Allocations and Regulations from 1960s to 1990s

The Swedish original pensions committee had discussed four broad investment strategy alternatives that can be called “the special destination”, “the banking institution”, “the retroverse loan”, and “the bond market” models. According to the special destination alternative, funds were simply to be used for specific economic purposes, such as housing construction and power supply. For labour unions, however, the new collective savings instrument, the three AP funds, provided a unique opportunity to try both to compete in the credit market with the dominant banks (e.g. SEB and SHB banks) and to provide capital to companies – both externally through the banks and internally with corporate bond investments. In 1961, LO proposed that AP funds ought to be able to buy shares in order to compete in the supply of capital while making ‘sure that pension savings would be channelled to *productive* investments’ (Ryner 2002, authors’ emphasis). The rationale was to invest in the industry sector through a creation of funds that would manage the volume and the timing of the investments in the economic targets. Because the opposition parties and businesses were afraid that the fund would be used by the government to nationalize certain sectors of private industry ‘by the back door’, the two alternatives were dropped and the fund boards were prohibited from investing in equity shares (Swenson 2002, Daly 1981, Pontusson 1991). The banking option was dropped also because the funds were not intended to make large banks even more concentrated but rather to replace old financial structures based on insurance companies.

Moreover, the AP funds were placed under many restrictions in investment choices and to follow the prudential standards of private insurance companies although being foundations. Although the extensive coverage of the ATP scheme rendered the interests of the insured similar to those of the ‘general public’, the means to serve these interests were very limited. In fact, they faced more investment constraints than insurance companies and essentially were enabled only investments that did not provide them any kind voice over issues of corporate governance. The funds were prevented from purchasing equities or holding any direct power over corporate governance, mandated only to buy corporate and government bonds and to provide direct loans to public authorities (e.g. local governments) and intermediary credit institutions such as corporate and investment banks.

The new pension investors in both sides of the Gulf of Bothnia shared the investment paradigm of 'retroverse loans', or, simply, *premium lending*. This refers to the mechanism with which employer-sponsors could borrow a part of their contributions, in Finland a formal employer right and more informal in Sweden. The economic benefit of the Finnish solution is that it is a flexible one, almost an automatic stabiliser in capital provision also lowering transaction costs: if the businesses don't need credit at some point of time, the capital can be then invested elsewhere; if they do, they will get it automatically. In the Swedish AP funds, employers could borrow 50% of their previous annual contributions if banks provided guarantees for them. In 1975, 74% of the funds' assets were in government bonds while only 18% was directed to lending and promissory loans (see Pontusson 1992:83). In the Finnish TEL funds, the premium lending was more extensive in popularity and more sophisticated in terms of financial innovation. The employer-sponsors could borrow two thirds of contributions as cheap loans with very little collateral. The interest rate for premium loans was fixed (at 5 %) for over three decades and was not made market-based until 2006. In contrast to Sweden, the Finnish TEL loans were not related to earlier contributions in cash: the pension providers received the contributions from employers annually in bonds instead of cash. The interest rate for the bond was the ministry-set technical provision rate, and the annual amortization seven percent of the remaining loan, which implied that the maturity of the loan was in principle unlimited. The Finnish solution was far more innovative and, arguably, increased the employers' trust towards the pension system in general.

The Swedish funds did not initially follow specific investment plans other than maximising returns in bond investments. The allocation of investments obtained only secondary importance as long as the primary target of satisfactory returns was achieved The AP fund investments in government bonds were linked with the development of new housing constructions and especially with the launch of the 'Million program'. The program was aimed at delivering one million houses in a period of ten years (Esping–Andersen 1985, p. 188). With this initiative, private capital willing to invest in housing was simply 'crowded out' by public arrangements. The policy was considered 'a priority' (Meidner in Martin 1984), and was accompanied with the enhancement of local authorities' power since they were responsible for the management of the new houses. Along with the construction of housing, the state invested in further social development such as the construction of hospitals and schools (LO 1963 cited in Pontusson 1992, p. 85). Table 1 provides an overall summary of the AP funds asset allocations in 1960-1988. As shown, the housing sector received the majority of AP lending. Employers borrowed more capital during the 1973 financial crisis and, interestingly, the right-wing bourgeois government coalition eleceted in 1978 used the AP funds to meet their budgetary requirements.

	Central government	Local government	Housing	Business
1960-65	10.3%	15.0%	42.4%	31.5%
1966-71	8.4	8.4	50.7	32.4
1972-77	22.0	6.9	35.1	46.1
1978-82	42.3	3.4	28.6	25.3
1983-88	23.6	-1.8	91.6	-15.8

Table 1. Basic allocations of AP fund (lending as a percentage of total net lending) in 1960-88. Adopted from Pontusson (1992, p. 85)

Along with the expansion of pension funds' size, the political significance of corporatist control over investment policy increased. Arne Geijer, the leader of the LO, was particularly interested in securing the ability of wage-earners to control their savings without any intermediation from the government. Despite employers' initial hesitation, Geijer strategically aimed at a collaboration of SAF and LO for a 'coup' over the fund investments. LO was willing to maintain its promises for full employment and welfare state expansion, and not to threaten the foundations of the Swedish market economy (Pontusson 1987, Pontusson, Kuruvilla 1992). In fact, in order to dispel SAF fears, Geijer guaranteed that a part of the funds would be directed to industry (Swenson 2002, p. 289-292) and companies would never lose their eligibility to premium lending. Essentially the vast majority of the AP lending to companies took place through the purchase of corporate bonds and promissory notes while premium-lending remaining a rather weak mechanism for credit supply. In fact, the supply of premium loans averaged only 4.0% of the total lending of the AP funds in 1969-72 and reached 9.3 % in 1977-80 (Pontuson 1992).

The Swedish AP funds initially became a tool for maintaining the premises of the Swedish market economy – i.e. full employment, productivity growth and welfare state expansion – with profit-seeking capital, not a tool for controlling corporate activities. In other words, although much of the funds were channelled through the government budget, Sweden opted for one kind of ‘pension fund capitalism’ instead of ‘pension fund socialism’ (cf. Belfrage, Ryner 2009 forthcoming). In this kind of pension fund capitalism, funds were supposed not only to provide a national financing source for housing projects independent of national budget but also to transform the Swedish financial sector. Quite similarly, case Finland provides a history of one kind of pension fund capitalism: it is ‘an excellent example of how it was possible to unify social policy goals with the economic goals of building up modern industrial market economies’ (Kangas 2006). In contrast to Sweden, however, public scheme funding was nothing new in 1960s Finland. Pension funds related to the national pension system electrified and built the basic infrastructure for the country since the late 1930s and especially in the 1950s, although completely failed to provide sustainable pension security. Now, the rapid industrialization of the economy from the 1960s on was largely facilitated by TEL funds, and until the 1980s all Finnish pension funds were more or less deliberately used to promote the national economy.

Premium lending was by far the most important investment vehicle for the TEL funds from the early 1960s all the way to mid 1990s, in the early years accounting for 80–90% of investments in some portfolios. Because the system was based on legal employer rights and automatic distribution of premium loans, the TEL providers could not simply opt for any investment strategy. All contributions and premium loan instalments didn't need to be used to pension payments, however, so a part of Finnish assets could be used to various other targets. The main non-premium-lending investment method was target-specific strategic allocation, whose goal was job creation and improvement of general employment rate according to public policy targets (Pentikäinen 1997), which was highly rational from the PAYG perspective. However, this goal was not related to a fixed path or specific industries, but dynamic.

In PICs, which were the only providers making significant investments since the funds tended to keep the assets in the parent companies, the most important vehicles were 'investment loans', big loans to the biggest contributing companies, and some other investments like equity and housing (see Figure 1). In the 1970s and 1980s, about one-third of these investments were directed at industry. In addition to industry, PICs invested in the building sector (about 20 per cent) and directly to real estate (about 15 per cent) (Kangas 2006). The profits from real estate and building project investments remained low. However, as Pentikäinen (1997) argued, the maximisation of profits was never the goal for investments in any instruments in the first decades of TEL investments – a stark contrast to Swedish bond investments.

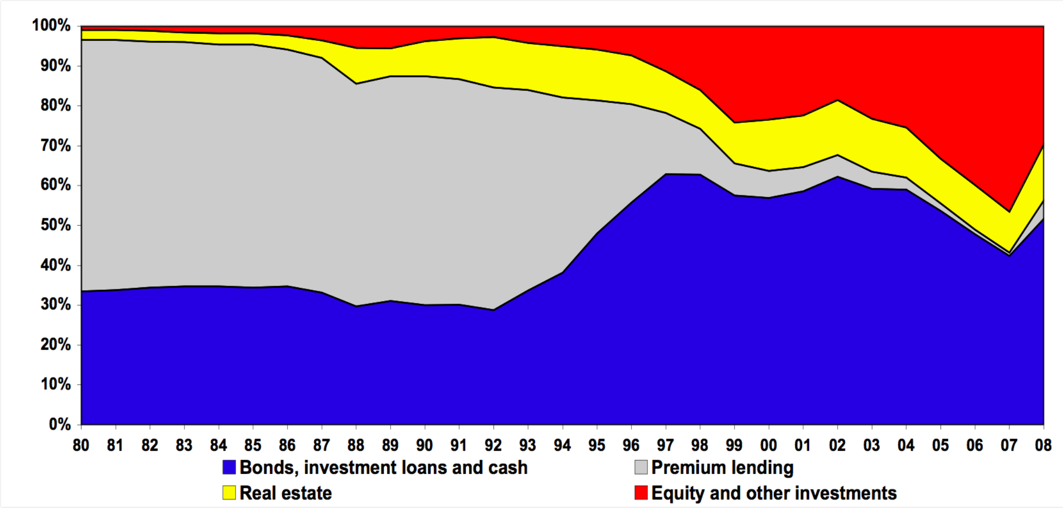

Figure 1. Total allocations (as a percentage of total portfolios) of all TEL provider investments by asset class in 1980–2008. Source: TELA

It was mostly the popularity of the premium lending system that made other investments less common, since the funds initially had few Swedish-type blocked transactions or allocation ceilings. However, there was an essential mechanism preventing all riskier investments. In contrast to Anglo-American funds, the accounting principles for TEL providers in general have been based on extensive risk management, which has been an important reason not to rely heavily on equity investments considered too volatile (Pentikäinen 1997). The regulation of PICs resembled the continental European style insurance regulation although the contents of this regulation were somewhat different (Lindqvist-Virtanen 2004). The capital reserve requirements for PICs established in 1969 gave PICs much less reserves than for life insurance companies, which was justified on the basis that PICs had joint liabilities – in case a PIC ended up to bankruptcy, the other companies would and continue even today to 'inherit' the liabilities. The essential feature of this institutional arrangement was that it provided little reserves and solvency for investment operations.[8] Reserves in general were thought to be reserves for insurance, not investment risks (HE 241/1996 1996). The mechanism was considered successful and consistent until early 1990s, when the arrangement faced severe critiques as technical provision rates needed more flexibility and other investment options were gaining more legitimacy (see next section).

The funds did not have such capital reserve requirements. In case of those funds taking care of second-pillar pension insurance, the company funds did not need to hold particular assets to cover any of pension liabilities before 1991, when the requirement was set to 75 % of current and future pension benefits by law, and the parent company needed to provide funds only the amounts needed to cover cash flows in any period of time. This was also possible in case of TEL insurances as long as The Finnish Centre for Pensions (*Eläketurvakeskus*, ETK) provided a credit guarantee for the asset deficit.[9] Nor had the company and industry-wide funds any significant direct restrictions in terms of asset classes and allocations – they could use bonds, loan incomes, stocks, shares, mutual and other fund units, real estate, land, reinsurance incomes, tax refunds, material objects, cash, and even hydroelectric power plants, besides any other assets the Ministry of Social and Health Affairs would approve, to cover their liabilities (HE 188/1995 1996). Although the TEL funds, in contrast to PICs, could make numerous different kinds of investments, the main rationale for investments reminded rather German book reserves than Anglo-American funds.

[8] In the pre-1997 TEL funding rules concerning PICs, an annual nominal discount rate (*rahastokorko*) of 5 percent of investment returns was transferred to the funds. The technical provision (*laskuperustekorko*) served as a minimum criterion for investment yield and was also the base rate for the premium loans. The yields between these rates were used to pension benefit payments, and the yields exceeding the technical provision rate were used almost fully to lower the employers' pension contributions.

[9] The guarantees were explicitly meant to replace solvency requirements and were mandatory for both fund types. The formerly public function went bankrupt and was privatized in 1994 to the insurance company Garantia.

Many groups of small employers were concerned that PICs invested their assets only in the biggest companies and planned having industry-wide funds to ensure their own capital availability. However, the PICs created a new earmarked credit instrument, union loan agreements (*liittolainasopimus*), to respond to these pressures lowering potential demand (Pentikäinen 1997).

In Sweden funds were mostly directed towards social housing projects, which was also an important target albeit in much lesser scale in Finland. In the third TUPO, so-called 'UKK-deal', the labour market organisations agreed that PIC would invest in rental housing production in 1972-73. Interestingly, this caused the pension providers to be somewhat active in partly state-sponsored housing (ARAVA) investments until late 1980s when the scheme ceased to exist (Kostamo 1997). Yet it must be noted that Finnish pension fund capitalism was never about ‘social investments’ as it wasn’t about achieving maximum portfolio returns. There was a paradigmatic difference between Finnish TEL investments both to the investments in preceding schema and to the Swedish AP investments. The national pension system assets were used to basic infrastructure (roads, electricity) and forest industry investments in Northern and Eastern Finland, whereas TEL funds were invested to more urban targets, industry and trade. TEL funds had 'helped to readjust industry and trade to international competition and affected changes in production structure especially since 1967' (Niemelä 1994).

In mid 1970s, the rate of pension contributions became to be understood as a tool for counter-cyclical economic policy (see also Salminen 1987, Kostamo 1997). In 1975, the target level of TEL pensions was set to 60 % of wages – yet the average level remained near 50 % – which somewhat changed the discursive understanding on pension futures after regular postponement of the issue (and indeed pension costs) in labour market agreements before that time (Lundqvist 1998). The policy of lowering TEL contributions caused much tension between the finance ministry and the pension providers. The ministry even planned obligatory investment targets and suggested the abolition of premium lending system, which sparked stronger cooperation between pension providers and labour market organisations on one hand but also political parties as channels for influencing policies on the other (Kostamo 1997). The politics on contribution level in short-term was in Finland to stay. This is not to say it had not been a long-term concern from the beginning. According to Pentikäinen (1997, p.36), the original principle in creating the TEL scheme was that Finnish businesses should not be subject to higher contribution rates than their rivals in other countries, namely Sweden. In other words, the TEL investments were not only supposed to buffer against the adoption of employer-sponsored statutory pensions but to broadly improve national competitivity. Premium lending generated general economic growth, customer compensations of exceptional investment performance improved the financial conditions of those firms that didn't need these loans, and investment loans enabled productive and well-employing business projects, whilst social investments to housing or other state-led projects and equity investments to take corporate control were minimal.

In Sweden, meanwhile, there had been some important changes in the institutional arrangements. The labour market interest to dominate the funds continued to grow. However, the original aspiration of the labour movement to control industry policy-making was being effectively curtailed by the legislative framework. As Pontusson

(1992) concludes, the ability of the unions to influence industrial policy and control capital was cut by the 'strategic capacity of business to exclude' unions from industrial strategy (p. 235). The fourth AP fund, established in 1974, was enabled to buy shares with voting rights and to acquire a more substantial role in directly controlling the economy in contrast to the less potent second pillar funds. The difference between the AP4 and APs 1–3 was that the former was a portfolio investor that was allowed to buy shares without, however, gaining too substantial an amount of shares which could influence strategic decisions. Although the funds did not coordinate their actions even in those firms to which funds had concentrated their highest legally possible stake, 10% of shares or votes, there was always a group of owners that would own a very broad majority of the firm (for details, see Whyman 2004). A fifth fund that was able to invest in equities and property was introduced in 1988.

The AP schemes were temporarily very successful in meeting their social policy objectives since the funds provided generous benefits to their recipients and increased the value of their assets vis-à-vis ATP contributions. But it was becoming clear in the early 1980s that the investment performance and the system more broadly could not quite fulfil its pension promise (Palme 2005a). Anecdotally, the Finns started to call failed earnings-related pension provision 'the Swedish disease' (Pentikäinen 1997). In the turn of the decade, the committee that was brought together in 1984 published its report and predicted that the Swedish pension system would meet major financial difficulties in the first decades of the 21st century. The committee itself did not propose to reform ATP scheme but rather to restore pensioners' income level by indexing benefits with income growth. SAP government however proposed a new round of discussions for the pension system while at the same time lifted any restrictions for the investment of the AP funds. The liberalisation of funds' investment practices was a demand by the LO, and partly their demands were met through the introduction of the new Private Pension Scheme (PPS).

The 1984 pension committee had acknowledged the need for raising contribution rates to meet the demands of the pension system as well as the suggestion that the AP funds would shrink in 15 years. Under the old system, the contribution rates were estimated to be around 23.5% in 1990 and predicted to reach 40% in 2015 (as calculated by the Pension Committee in 1994, see Selén, Ståhlberg 2007). The solutions offered were either an increase of employers' labour costs through higher contributions or the reduction of wage-earners income. Both options were dismissed on different accounts and, essentially, the ATP schemes were not modernised to cope with emerging social needs, resulting to an intentional institutional drift. The maturation of the ATP scheme by the end of the 1980s necessitated further adjustments to the pension system, since it would render ATP an expensive programme to run. But it had also placed a ceiling in the amount of savings that it could receive. The ATP could have not met its social policy objectives in the long-term, which caused a growing percentage of the population diverting its pension savings to private plans. The deliberate neglect to modernise the ATP schemes thus promoted the role of mutual funds and private solutions such as the development of the Private Pensions' Scheme (PPS, *Allemanssparandet*) and a mutual fund saving scheme, *Allemansfond* (the Everyone's fund) (Jonsson, Lounsbury 2004).

The pressures for changes in the Finnish regime came in 1990s rather than 1980s. In the year 1980, premium loans still accounted for over 60% of all investments, and when bond investments, investment loans and cash were added, they constituted about staggering 95% of all investments. However, in the 'casino years' of late 1980s, also some TEL money was blown when the financial bubble burst. PIC *Eläke-Kansa* had to cover losses arising from international reinsurances (including e.g. many activities in tax havens) and scandalous so-called Kouri-deals, and was eventually bankrupt (after a decade of litigation) whilst its assets had been also used to prep up finances of the EKA group owning the Kansa group (Pentikäinen 1997, p. 142). When the deepest recession any OECD country had seen since the Second World War hit Finland, nearly 40 percent of all TEL investments were directed at Finnish government bonds in first half of the 1990s. This was regarded as very inconsistent in relation to the goal of enhancing Finnish corporate sector's capital availability. The old investment constraints had exhausted while the intended target had remained. TEL investments were becoming central issues in public debate. The collapse of Eläke-Kansa triggered a broad public debate on how pension funds should be invested (Kostamo 1997). The debate was very lively. For example in mid-1990s, the SMEs and self-employed wanted to abandon the funding component of the system in order to lower the contributions (until 2007) to ease the rough times (Vuoristo 1996).

After the financial and money markets were liberalized in late 1980s there was a major normative and discursive shift in the investment paradigm. The leaders of largest Finnish companies had conquered the major PIC BoDs and the social insurance experience had been replaced by professional business and finance paradigm in early 1990s (Pentikäinen 1997, p. 128–129). In the early 1990s, the employees' interests in investments changed when the TEL contributions became to be shared by both employers and employees, just like the employers had demanded from the beginning (ibid. p.36). Financial markets were gaining preference over premium lending and 'investment loans', internationally diversified investment over national dependencies, and cutting costs of baby boomer generation retirement with short-term investment over securing national capital supply in times of low demand for premium loans among TEL system stakeholders (Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä 2006). The institutions of a private national economic development project were *converted* into market-led financial capitalism. What made this change so dramatic was the complete loss of faith in planning and effective governance so strong in 1960s and 70s and the great transformations in the Finnish financial sector (Soikkanen 1998).[10] The new paradigm would include broad portfolio diversification and competition. The labour market parties and TELA was mandated to canvas the new investment landscape, which would turn into a new powerful coordination body, *Puro workgroup*, and a major regulative reform of 1997.

The institutional change processes from the original paradigms in two countries were quite different. The investments bounded by regulation providing little solvency and room for innovation had exhausted in Finland, but for reasons opposite to Sweden that suffered from drift in respect to pension promises and contribution rates but was legitimate in investments. The TEL scheme was financially sustainable in the liabilities side – it was purely the usage of assets that was exhausted in respect to the new economic environment. In both cases the change first in discursive investment

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[10] The beginning of 1990s saw many traditional institutions of Finnish economy, most importantly the financial system – the traditional blue, red and "green" (agrarian) capital either disappeared or was merged to international capital – to vanish and the broadly shared experience of insecurity to step in.

paradigm and later in norms had changed during the 1980s and early1990s, but as our analysis in the next section shows, it is not just the different motivations for change and exhaustion of different institutions but also the actual change processes that are of great importance in the shifts towards the new investment paradigm shared by the both countries. In Sweden, major paradigmatic reforms on pension regime in 1990s and 2000s would permanently change the social investment and 'buffer finance for national economy' paradigm to a professional global portfolio investment paradigm, whilst the Finnish shift was enabled by surprisingly minor parametric reforms.

Towards Global Portfolio Investments: Reforms in the 1990s and 2000s

The governance of the new pension system reflects the power asymmetries among the key actors and how power struggle comes to be realised for the change of welfare institutions. In contrast with the previous pension reforms there have been fundamental differences in the process of implementation, the content and the logic of the pension scheme. The appointment of the pension committee aimed for the creation of a political consensus for the implementation of the reform. However, societal interests and especially those of the nominal owners of the pension savings were excluded from the implementation process. The governance of the pension reform therefore remained an exclusive 'top-down' decision of political parties' representatives. Organised labour was not part of the pension committee but maintained its ties with SAP and at the Social Democratic Party Congress. The parliamentary representatives of SAP approved the reform before the party members approved it and despite their criticisms, they effectively imposed a dilemma to party members; whether the multi-party proposal was accepted or the whole process of the reform was brought to an end with union members receiving the blame. Despite the fact the majority of regional union units were initially against it (Kangas, Lundberg et al. 2006), party members finally accepted the proposal.

The Swedish 1998 pension reform that became effective in 2001 was from pension scheme perspective a path departure from the old prefunded DB system to a new partially funded notional defined contribution (NDC) scheme. The reform kept the 18.5% of annual earnings as the pension contribution rate, with 16% directed to the PAYG NDC pension accounts and 2.5% to private investment reserve funds called *premium pension* (FDC) (see Figure 2). The pension contribution of an employee is 7% of the wage, added with some contributions from the social insurance system and unemployment insurance. Employers pay 10.21% of the employees' wage sum to the pension system. The contributions are set to 17.21% because the replacement rate for maximum pension is calculated as 93% of the ceiling contributions. The individual will continue to accrue his pension right even in time of unemployment or in case of injury through the contributions of the unemployment and disability insurance system respectively. The pension regime provides a universal but not flat-rate basic benefit as the old system. This new arrangement was applied from the Finnish solution that had re-coupled the basic pensions and earnings-related pension in a new albeit not exactly the same way (see Hietaniemi & Ritola 2007). The Swedes introduced a means-tested basic guarantee pension – recently discussed by the Finnish government in a similar form – that aimed at alleviating poverty of people who were not able achieve the necessary level of contributions through the earnings-related scheme. The pension reform replaced the Basic pension and ATP scheme with the new income and premium pension.

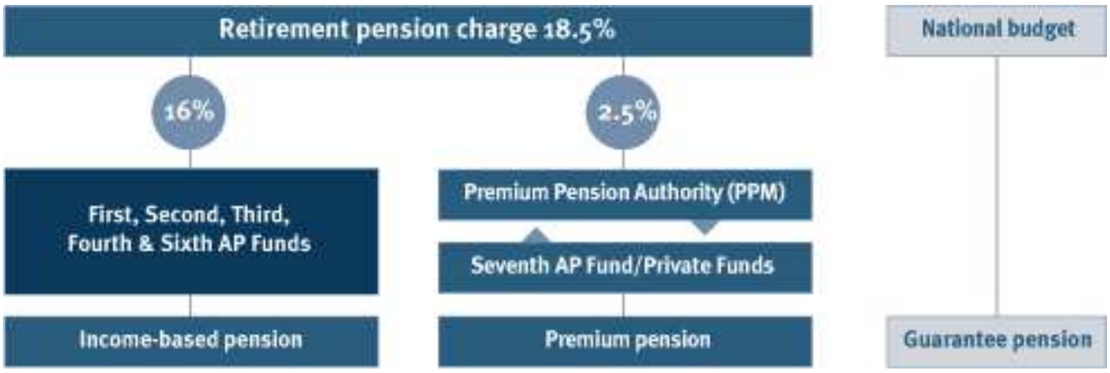

Figure 2. Swedish AP/PPM provision structures. Source: Andra AP-Fonden

From the asset management perspective, perhaps the most important issue is that the division of labour between AP funds is different from before. The first four AP funds were given equal portfolios and new mandates and constraints (see Table 3) when assets were redistributed to the new scheme execution. The primary goal of these funds is to 'maximise long-term return on capital in relation to investment risk' (Ministry of Finance cited in Weaver 2004: 304). There is an emphasis for more long-term and well-managed investment while at the same time bearing in mind ethical and environmental considerations. These old ATP funds are used to cover their liabilities individually but mainly used as buffer funds i.e. wound up in case of demographic or economic crises. 200 million SEK of old ATP assets were transferred to an established Sixth pension fund. The sixth fund aims at enhancing investments in small and medium companies. The established Seventh fund is a primarily index-tracking, passively managed (although famous also for operationally separating alpha investment from beta strategy) ‘default fund’, which means it is investing for those employees that do not want to choose between the Premium Pension fund managers. Currently there is no Fifth AP fund.

Directives and restrictions for the AP fund investments
No more than 70% of the Fund’s assets may be invested in equities
At least 30% of each fund’s assets must be in low-risk interest-bearing securities
No more than 10% of any funds assets ‘may be exposed to a single issuer or group of issuers
No individual fund may hold more than 10% of the voting shares of any listed company
At least 10% of each fund’s money must be managed externally (by January 2002)
No more than 5% of assets of any fund can be held in unlisted securities and any such investments should be made indirectly
No fund may hold equity holdings in Swedish companies greater than 2% of the capitalisation of the Stockholm stock exchange
No more than 40% of the Fund’s assets may be exposed to currency risk
No restrictions on the share of the Fund’s assets that may be invested outside Sweden

Table 3. Investment rules as set by the Swedish National Pension Fund Act. Source: Weaver (2004, p. 305), Första AP-Fonden (2007)

The four first AP funds were now allowed to diverge in their investments. A long-term split of 69/31% between bonds and equities in their enactment has shifted towards favouring more equity in all four funds. The share of equity investments differs among the funds. The fourth fund has reached 63.3% share of equity in total portfolio. The investment in Swedish equities remains between 12% and 24% in the funds (Weaver 2004). The change in investment regulation diverted investments from productivity growth and bond-mediated economic growth but the funds are still prevented exercising any significant power in listed companies, including having representatives in BoDs. The reform therefore maintained the professional portfolio management ethos and again gave priority to high returns under new mandates and constraints. In contrast to the previous arrangements, however, the actors making the actual decisions over pension fund investments are now private managers rather than stakeholder representatives. The latter are only able to nominate directors but the decision for the Chairman and the Deputy Chairman relies on the government (Yermo 2008).

For the premium-based pensions, the pension saver is expected to actively participate in the financial market by choosing among 500 fund managers available. Pension savers can change their fund – every day if they like – with no cost or to passively rely to the public default pension fund (ISSA 2001). The premium pension accounts, contributions and licenses of asset managers are coordinated by a regulatory authority, *Premiepensionmyndigheten* (PPM) that bears the responsibility for administration of and information provision on the scheme. The funds are not allowed to be controlled by their nominal owners and remain at the hands of private managers that are responsible for investing pension funds assets, either internally or externally. Despite several programmes and attempts (Belfrage, Ryner 2009 forthcoming, Palme, Svensson 2003), the original percentage of beneficiaries that exercise their ability to choose between funds fell from 70% in 2001 to 9% the next years (Palme 2005b), and effectively the majority of the premium pension savers switch to the default fund.

This has had interesting ‘side effects’ to the investment policy. The seventh AP Fund has decided to trade shares of many well-known companies such as Coca-Cola, General Motors, Nestle, Texaco due to incidents of bribery and business ethic breaches (NPRN 2008). The fund also invests for example in gambling and tobacco companies (Weaver 2003), and recently the AP funds have also invested in arms construction and dealing companies such as Halliburton and Wal-Mart. The Ethical Council of the Swedish National Pension Funds that controls investments have, however, impeded such investments for companies that do not meet the ILO convention of workers’ rights and international conventions regarding social rights, environment, bribery, corruption and the use of certain weapons (e.g. cluster munitions). AP funds are obliged to ‘name and shame’ the listed companies without however screening these firms outside investment horizon in the future (Ethical-Council 2007). Interestingly, ethical and social corporate responsibility is high in the agenda of AP funds governance, despite the lack of a clear directive or principle for these investments. For example, AP7 has extensive corporate governance principles[11] although they are legally not able to use voting rights. According to its annual reports the AP7 is a full financial professional, also using investment methods such as shorting and currency speculation.

Since the implementation of the premium pension in 2000, the increasing contributions channelled to the scheme have exceeded the returns from the investments. The former still provides the necessary capital for AP funds to deliver their liabilities. The returns of AP funds were not only negative during the recent financial crisis but also experienced a serious fall in 2005. In fact, until 2005 for every

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[11] See http://www.ap7.se/dokument/policy/Policy_for_Corporate_Governance.pdf

SEK that was credited to the system there was a loss of 9% from the investments (SOU 2005). Between 2006 and 2008, the AP funds growth was restored but still didn't meet the target of a 5.1–6.1% annual average rate of returns. This target acts as a benchmark for the AP funds Board of Directors. Recently, the turmoil in the financial markets caused a decrease of approximately 20% of the market value of AP assets. The losses were higher for the AP funds that invested more in equity while the returns from fixed-income still provided positive returns. A substantial share of the investment is allocated towards non-Swedish equities, while investment towards fixed income such as government bonds remained low.

The financial status of the Swedish earnings-related pension system is expressed as balance ratio between assets (the value of future contributions plus the cumulative returns from fund investments) and liabilities (future pension obligations). In case the balance between assets and liabilities falls below 1 then so-called automatic balancing mechanisms are activated. The 2008 investment returns averaged -20% and future projections suggested that the balance ratio would move below the threshold of 1. This means that the pension benefits provided by 2010 will effectively be reduced and unless there is a recovery in the balance ratio, it would continue to apply within the next years. The low returns from the investments did not, however, meant that pension funds sold their assets amidst the crisis. In contrast to insurance companies, the AP funds are not subject to market valuation. The strategy of the AP funds was to respond with a discourse on 'long-term planning'. Despite the severe losses from equities, AP funds seem reluctant to drop their equity shares and high-risk investments from their portfolios, in the hope that in the long-run, the returns from equities will outperform the returns from government and corporate bonds.

	AP1	AP2	AP3	AP4
Equities (Swedish)	13%	18%	9.7%	18%
Equities (non-Swedish)	40%	35%	45.9%	38%
Equities (Emerging markets)	16%	5%		2%
Fixed-income (Swedish)	9%		10.5%	6.0%
Fixed income (Non-Swedish)	9%	35%	26.5%	31.0%
Alternative Assets	3%		16.7%	
Real Estate		5.0%	8.9%	4.0%
Private Equity		1.0%	6.0%	1.0%
Profit/Loss 2008 (Annual)	**-21,7%***	**-24.1%**	**-19.7%**	**-20.8%**
SEK (bn)	**172.0**	**173.3**	**181.0**	**164.0**

Table 4. The first four AP fund allocations at a glance in 2008. (*equities -40.1 %, fixed income +8.3 %) Source: Första, Andra.,Tredje and Fjärde AP Fonden.

From an institutional change perspective on asset management, the Swedish reform was not nearly as dramatic as it was from the liabilities point of view. The new version of portfolio management was not a liberalised one but different in the strong rule-based (i.e. not principle-based) mandate and constraints. The change marked a clear shift from primarily qualitative restrictions (i.e. no investments in equity apart from AP4) to quantitative ones (e.g. 70 % ceiling in equity, 30 % minimum in low-risk securities), although some important qualitative restrictions were dismantled (e.g. foreign investments). The long-term paradigm includes many concerns over 'shareholder value' and non-marked-to-market valuation methods is still an important feature in the institutional framework of Swedish pension asset management. In this regulative sense, the change was not so drastic, and the new system exemplifies continuity in quite many terms. Now, however, the investments cannot be targeted to social projects via national budget or to large economic projects due to the diversification rules. We argue that the change re-enforced the logic of maximising returns as professionalist portfolio investments, not 'corporate controllers', simply by broadening the available vehicles and narrowing individual stakes.

It could be argued that the new NDC system was *translated to* the already dominant institutional understanding on proper pension investments rather than other way around, while the old investment paradigms *exhausted with* ATP and LO dominance. In normative and discursive terms, the change was indeed only one part in a longer change process. Interestingly, the new arrangement has not performed any better – much worse some could argue – in terms of matching liabilities, which was the cause of drift and exhaustion of the old paradigms. In contrast, it is just immune to financial stress in accountancy terms since bad performance simply means lower minimum pensions.

In contrast to the Swedish drift experience, the old institutional arrangement for Finnish TEL investments had drifted simply because the pension capital was and, more importantly, could not be allocated to the originally intended target since it was not the fund managers who could fully decide over meeting this target. Premium loans became almost obsolete and investment loans much less popular when the financial markets were opened and liberalized. The change in demand for premium loans was very rapid: the loans accounted for 63.0 % of all PIC investments in 1980 in contrast to only 15.4 % in 1997 (see Figure 1, p. 40). The TEL investors had no alternatives but to increase investments in other targets, but due to their scarce capital reserves they had few options but to invest most of incoming contributions in government bonds. This target was essential as it helped to save the state from the recession and arguably even more essential in revitalizing the economy to a new ICT-driven growth track in the mid 1990s. Despite this merit, the new allocation schema was broadly considered to be against the original rationale for investments (HE 241/1996). In other words, it was not enough that the funds were channelled to private business by private business for the collective private economic development – it had to happen directly, in a market-driven manner in which each investee firm is judged according to its financial performance rather than economic potential. Moreover, it had to happen by managing investment risks and new kinds of future uncertainties. When Eläke-Kansa collapsed, the system stakeholders decided in concert to start discussing about new possibilities for investment rules and practices. The reforms were to be designed in two much overlapping fronts.

New investment rules and practices were to be negotiated in the so-called *Puro workgroup* – named after PIC *Ilmarinen* CEO Kari Puro who chaired the meetings and formally called the 'Pensions negotiation group of central labour market organisations' (*Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä*) – that was formed in early 1990s in order to discuss the sharing of contributions between employers and employees (which came in effect in 1993). The group, comprising of all central labour market representatives as primary members and the CEOs of the two biggest PICs as expert advisors, had now been given a much broader mandate. *Puro group* was to be very powerful in setting the future agendas with its consensual outcomes that rare dared to denounce – it has been often argued in popular media that "the politicians gave the power to the group" (Seies 2006). It was based on purely normative mandate and achieved a strong status as an able institutional entrepreneur. The investment rule reforms of 1997 and 2007 were both negotiated in and by the group, and more or less just rubber-stamped by the parliament. The other front was the more general legal reform process on the general legal mandate of the pension provision, whose main goal was to clarify the organizational independence and the endogenisation of risks to operational management (Louekoski 1997) in the conditions of EU membership and questionable corporate governance structures. This process was initiated by a report written for the parliament by Mr. Matti Louekoski of Bank of Finland. Some parts of this process had however already been started in TUPO agreements of early 1990s.

It was clear for all parties involved in the Puro group that the primary institutional constraints for any new investment focus were the old funding rules that provided little solvency for the PICs. There was also broad support for the ideas that the investments ought to be more subjected to market discipline, the supervision of beneficiary interest enhanced to meet 'fiduciary standards', and the beneficiary voice to be better heard in investment decision-making (Louekoski 1997). The explicit reasons for reforms that were stated first in the government bill were 'the new conditions in the investment environment' and interest rate levels (HE 241/1996

1996). This can be interpreted so that there was a very clear new discursive understanding about investments and their environment, but this is not to say that there was a clear consensus or even normative understanding on the proper solutions and new arrangements.

The main rationale for this part of the reform was simply to give a broader mandate in the execution of the current system in a more diversified (in terms of asset allocation) yet cost-efficient manner – or, to be *converted* to new pension security provision under new conditions. It introduced one application of a public traffic-light supervision method common to Nordic countries in which the extent of public control was based on solvency zones and the zones were based on portfolio theory based risk-adjustments and allocations between asset classes. Put simply, different investment styles created different zones. Now, the extra investment yields could be used in increasing providers' capital reserves and other targets (e.g. customer compensations) according to solvency zones.[12] The law also introduced a new mechanism within the liabilities, which could be used to buffer individual PIC losses with collective buffer assets. The reform also gave Supervisory Boards elected by annual shareholder meetings a major role as operational supervisors of PIC BoDs.

The Puro group report ended up into a government bill (HE 241/1996), but it also suggested various further reforms further discussed in the Louekoski report. The report was very relevant in respect to responsibilities and decision-making in investment management and illustrated well the various possible forms the late 1990s

[12] From 1997 to 2006 the TEL fund liabilities were increased annually by a nominal 3 percent discount rate with an adjustment factor. In order to improve the solvency in the short term, the law included that the yields between nominal discount rate and technical provision rate were moved to the capital reserves instead of liabilities for 2–3 years in the late 1990s.

reforms could have taken. It included four broad options for the future(see Louekoski 1997 for details), but adopted a model in which TEL providers would continue to be based on separate laws also defining provider-entities. This option was considered the most consistent because it made a clear demarcation from both limited and insurance companies, although some constitutional problems on who owns the assets remained. The main argument against other options was that the decentralization was beneficial due to competition. Competition was supposed to guarantee the development of provision models and thus provide indirect benefits for the insured (Louekoski 1997).

The new law on PICs based on Louekoski report concentrated all issues that made PICs different from insurance and limited company law in terms of corporate governance and more general mandates and constraints (HE 255/1996 1996). The asset management of PIC should be now completely independent from insurance groups and other influences both formally and in personal relations and individuals' status. The solution adopted relied on gradual change towards increasing financial professionalism however subject to labour market consensus. Most importantly, the reform introduced a 10 % ceiling in share vote ownership and/or voting rights in other PICs and finance sector organizations under public supervision without permission from the Ministry for Social and Health Affairs (STM), which was intended to reduce financial concentration and TEL provider control over the finance sector. The law introduced new required qualifications for CEOs and BoDs of PICs. The former should now have qualified experience on social insurance, investment management and business management and the latter must include investment expertise. The role of BoDs was strengthened: they should now prepare all important issues for the annual shareholder meetings and their members were reserved a right to address in the meetings. The role of internal dissent of BoDs was also highlighted as it now required two thirds' majority (previously simple majority) consent when required investment plans – the only major avenue for direct public control over PIC assets, which was strengthened – were made. The labour market organisations were given a mandate to nominate one auditor.

The Finnish shift towards financial professionalism without losing the old paradigms or changing 'the liability side' of pensions was deliberate and consensual yet contingent. It was based on new ideas quite independent of developments elsewhere than before: in the preparatory documents other countries or non-local practices are rarely even mentioned. Yet, it has numerous references to international markets. Indeed, the conversion to professional portfolio investment included both much 'good path dependence' and new ideas and innovations. Although the narrative concerning the 1997 reform is based on arguments on 'changes in external conditions' and objective consensus, it was not these conditions but new kind of financial professionalism – liquidity-prized and portfolio theory based risk management and profit-making via secondary market exchange transactions – that had already started to conquer the PICs combined with the new version of politics of competitivity (i.e. contribution rate control) that fuelled the change. By simultaneously slightly broadening the mandate and significantly loosening constraints, and slightly improving public and definitely mathematics-based control, small regulative changes and parametric reforms caused a paradigmatic change in how institutions were used. The national corporatist economic development project was turned into professional portfolio management for pension provision.

Pension providers fulfilled the purpose and promise of the reform with high investment performance. The conditions of the TMT boom provided over 10 percent annual real investment returns in 1998–1999. The crash of the bubble caused low or even slightly negative investment returns in 2000–2002, but from 2003–2007, the annual real returns returned to the level of 6–10 percent. The growth in pension fund size was very significant in 2003–2007 as TEL/TyEL assets grew from €57.3 billion in 2003 to €82.2 billion in 2007. The decade following 1997 was in absolute terms marked by sharply increased equity investment and stable investment in Finland (€30 billion or so) and, in relative terms, increasing foreign investments. Whilst the PIC investments became more foreign equity and pioneers in alternative classes – some PICs had almost 15 % of their investments in e.g. hedge funds in 2007 – the TEL funds had a less drastic shift in allocations between different asset classes. In contrast, the PICs lowered the relative weight of Finnish assets in their portfolios more slowly than the funds that relied almost entirely on domestic assets still in late 1990s (see Figure 3).

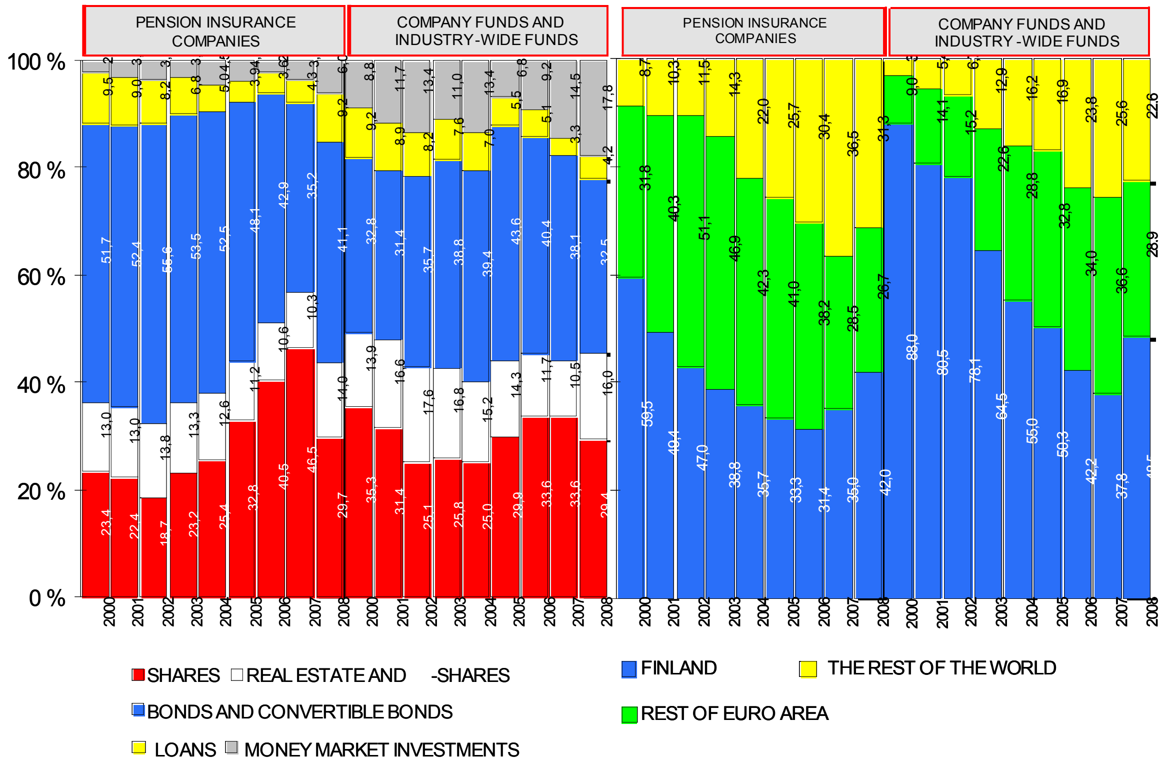

Figure 3. Pension insurance company, company fund and industry-wide fund investment portfolios by asset classes and currency areas in 2000–2008. (*Shares' include investments in mutual equity funds, hedge funds and private equity, and since 2004, investments in money market funds are included in money market investments instead of bonds*.) Source: TELA

The quick shift towards international portfolio investments was hardly a surprise. Kangas (2006) suggests it was the financial liberalisation and opening that made international focus easier, the Eurozone membership that eliminated currency risks that were previously a major concern, and the critique on low domestic investment yields that legitimised the shift of Finnish investments to international investments. The global 'language of finance' (Clark & Wójcik 2007) penetrated Finnish pension finances culturally as well. Kangas (ibid.) for insance argues one important feature behind rapidly increasing investments abroad is the simple observation that pension investors monitor indices all over the world as benchmarks. There was an active discussion on the proper normative use of the assets, 'which concluded that the main task of the pension scheme was to safeguard future pension promises, and as foreign investments appeared to give better dividends they were also regarded as safer investments' (p. 10). It must be noted that different weightings in different asset classes do not yet imply diversification in the strong meaning of the word. For example in 2004, half of the TEL investments were in bonds, and about 90 % of these investments were in Finnish, French and German sovereign bonds. Although the goal of portfolio investments was to diversify against the performance of a single national economy – one of the main rationales not to have only PAYG systems – this kind of investment behaviour rather implied a new kind of dependence on performance of European states and firms.

There were a few important discursive changes before the next big reforms in mid 2000s. Competition between TEL providers became an important issue: aims at higher returns, more tailored service provision and cost-efficiency as means for competition that was supposed to prevent concentration in the sector (STM 2002). Again, this would require even more solvency, which was one of the reasons behind new reform on investment boundary conditions. Moreover, a report (Kausto 2002) commissioned by STM on the risks faced by the TEL system suggested that investment risk management ought to be better managed in collective terms. In 2006, 'the Rajaniemi report' (Rajaniemi 2007) raised various other issues directly concerning asset management in context of competition. It noticed a clear shift from insurance provision to 'investment fund' ethos. Perhaps the most interesting argument was that there was no clear distinction between internal (funds) and external (PICs) management of assets in the regime. The laws on both types of funds ought now to be re-evaluated and later combined, not least because both types had lost their popularity.

There were some very detailed suggestions as well, including the suggestion to make investments in real estate and property funds easier by changing the tax treatment and making pricing more transparent. TEL was changed into TyEL in beginning of 2007. The most important feature of this shift from the asset management side was that the dedicated fund taking care of all non-TEL earnings-related investments was transformed into a new PIC *Etera*. The more specific changes in TyEL provision were again commissioned by the Puro group and the STM-set expert group led by Mr. Louekoski. The task[13] for the Puro group was to discuss how the TEL/TyEL provider solvency and balance rules could be reformed in order to increase riskier and more profitable investments, and how more of the investments could be targeted to Finland, whereas the Louekoski mandate was to clarify the legal mandate of PICs in respect to new law on listed companies and insurance companies.

The 2006 Puro workgroup report (Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä 2006) illustrates *par excellence* the end results of two discursive shift that started in the 1990s. The first shift is the emerged financial professionalism and technocratic governance. One conclusion drawn in the report was that the investment allocations were suboptimal in terms of risk-taking, and thus equity and alternative investments needed to be increased and solvency improved with new (merged) solvency and balance rules, now common to all provider types, that would again increase capital reserves and make part of liability transfers dependent on collective equity investment performance. The simulated projections on the share of equity investments implied a 20–25 % of total portfolios in the long-term

[13] This was the last one commissioned by *Puro* group that became *Rantala* group after the retired CEO Puro was replaced by non-PIC actor, ETK director Jukka Rantala as the group chair in 2007-08.

and the new target share was set to 35 %. The report stated that the previous regulations were inflexible and 'far too detailed', whereas the new introduced regulations included very complex mathematical formulae in order to define the 'real risk levels' of individual investments instead of 'legally defined risks' for new financial products such as structured investments and hedge funds. In other words, the control over TyEL assets was to be more detailed and increasingly MPT-based.

The second shift was the shift within the national competitivity paradigm from economic performance to financial conditions. This also refers to a new operational weighting, in which the PAYG part became even more distant from the administration of the funded part. The employment rate was no more considered an important feature in Finnish investments, which was now dominated by the idea of making increases in domestic investment dependent on the foreign investors' opinion on the investment environment. Domestic investments could be explicitly increased *only* if Finnish financial markets were 'deepened', for example if tax policies were more investor-friendly, households increased savings in equity, and Finnish firms listed more often. The report states that pension capital *cannot* be used to make decisions over the economy (which is done by firms). The new 'financialised' culture of TyEL investments could use power over Finnish economy in terms of real investments and employment only if businesses decided to do so, and more generally to operate in Finland only if the state would create financially luring conditions or other Finnish capital, explicitly mentioning household bank accounts, took an initiative.

In regulative terms, the current institutional framework for TyEL investments is based on a mandate providing solvency for global portfolio investments and few albeit significant constraints for investment activities, although requiring much competency from the provider managers. This mandate includes various ways in which the TyEL providers are steered. The new control methods include complex mathematics[14] and the idea of imposed self-control, most importantly enforced through annually required *investment plans* that are approved by the FIN-FSA. The law on TyEL proviers' solvency and liabilities (1114/2006) introduced new discursive categorisations for asset classes (see Table 5), in which each category includes different risk factors in solvency border calculation. There is a 10 % ceiling on individual stakes in stock investments apart from investment funds, introduced in current form in 2006 (1125/2006). There is a 20 % of total portfolio ceiling for securities denominated in other currency than the euro, a 15 % ceiling for non-listed securities (excluding real estate and EEA or OECD government bonds), a 10 % ceiling for individual or highly related buildings (and funds targeted at or loans related to such buildings), a 5 % ceiling for securities emitted by a same community, and a 5 % ceiling to non-collateralised debt (1114/2006).

[14] The solvency border for example is based on formula $p = [\ -(\Sigma_i\, \beta_i\, m_i - t) + a \sqrt{\ (\Sigma_{i,j}\, \beta_i\, \beta_j\, s_i\, s_j\, r_{ij} + \lambda^2 S^2\ )}\ ] /100$

I Money Market Instruments	II Bonds and Debentures	III Real Estate	IV Equity	V Other investments
Under one-year maturity obligations, in euros, borrowed or guaranteed by: 1) Åland island, EEA or OECD country, a public body residing in such country, or international organisation in which at least one such country belongs to 2) Insurance company or credit institution residing in an EEA or OECD country 3) Publicly listed company residing in an EEA or OECD country 4) Other bodies residing in an EEA or OECD country	Premium loans and investment loans (and their interest rates) Over one-year maturity obligations (and their interest rates), in euros, borrowed or guaranteed by: 1) Åland island, EEA or OECD country, a public body residing in such country, or international organisation in which at least one such country belongs to 2) a public body residing in other than EEA or OECD country, or international organisation in which no country belongs to these groups 3) Insurance company or credit institution residing in an EEA or OECD country 4) Other bodies	EEA or OECD - residing residential buildings EEA or OECD - residing business, office, hotel and industry buildings EEA or OECD - residing other buildings Real estate in other areas than EEA or OECD countries	Stocks and shares publicly listed in EEA and OECD countries Stocks and shares of companies registered to EEA or OECD country Other stocks and shares	Under one-year maturity 1) obligations in other currency than euro 2) currency investments Over one-year maturity 1) obligations in other currency than euro 2) currency investments Metal, energy, other raw materials and commodities, rights on non-built land areas and hydroelectric plants, and other special rights All other investments

Table 5. Legal investment asset class categorisations of Finnish TyEL providers.

In contrast to the more return-oriented Swedish funds, the primary norm of proper investment behaviour among the stakeholders is long-term risk management, although the differences in these weightings that are both present in both countries are only subtle. In Finnish funds, the old national economic development paradigm has been introduced to the social responsibility (SR) thinking in form of ‘concerning Finnish employment'. While the SR policies and principles of PICs are extensive, they usually lack transparency in terms of mechanisms. Similarly, 'long-termism' is an important discursive justification for activities in annual reports, but the mechanisms provided for this bias are not presented in detail. One of the main difference between TyEL providers and AP funds is that the former have been very active in promoting shareholder value and, for example, even preventing coups of Finnish firms – most notably the attempts of Iceland investment bank to restructure the governance system of the telecommunications firm *Elisa* few years ago – from abroad via primarily tactical shareholder activism, including voting rights, whilst ethical screening has been understood ineffective. In terms of allocations, there have been some further demands that a bigger part of the pension funds should be invested in various national research and development projects and the new infrastructure 'required by the high-tech society' (Kangas 2006). Yet, the annual reports state that the primary interest in home markets is fuelled by deeper information availability and personal contacts with Finnish firms. Providers also compete albeit not only with customer compensations. It must be noted that although all recent reforms have highlighted that capital availability is not a problem in the Finnish economy and in this sense there is no need for increasing domestic investments, the domestic investments remain an essential source for actively sought legitimacy.

In Finland, the financial crisis of 2007– did end up with massive losses in TyEL funds – for instance, the PICs made total losses of 15.2 %.[15] The capital reserves and solvency rules proved very effective in terms of securing the DB system. However, the TyEL providers are under mark-to-market accounting rules, which implied that

[15] See http://www.tela.fi for details

they should have sold their liquid assets. This problem was tackled with an exception law that eliminated forced sales by raising the importance of equity performance-dependent factor in liability formation, by using the collective buffers to improve individual funds' solvency, and by moving only base 3 % of assets to liabilities in 2008 and until 2010 (HE 180/2008 2008). The solvency ratio (reserves to liabilities) was decreased from 30 to 16 % during the year 2008, but the solvency rate (reserves to solvency requirements) was improved from 2 to 2.6 thanks to the provisory law. The Finnish system has not suffered from the crisis too much but rather shown its strengths. Arguably, the again-popular premium lending system might have even worked as an effective buffer against direct economic damages caused by the credit crunch. The financial performance has not yet questioned the long-term efficiency of the system, which is now based on 4 % annual real returns in simulations. The performance of mandatory private-sector pension funds from 1998–2008 was only 1.9 %. According to TELA officials (authors' personal communication), the TEL/TyEL funds have still 'beaten the market' for decades and it has been thus beneficial to make portfolio investments in general. Although it is too early to make any judgements, it is evident that all funded pensions systems that rely on financial markets may face some contestation in the future. As hypothesis, we expect this normative contestation to hit Swedish system worse than the Finnish scheme but also note that the crisis may have more profound effects on the regulative sustainability of the Finnish scheme administration.

Conclusions

The institutional development paths of Swedish and Finnish pension first-pillar pension fund governance illustrate many institutional similarities yet with very significant differences in each case. Firstly, both countries have created partially funded first-pillar pension schemes that have generated significant amounts of capital for these economies for the last half century. Yet, the funding component was from the beginning embedded in very different kinds of pension schemes, which also played an important part in pension reforms. The Swedish universal minimum pension earnings-related DB scheme matured too early and became financially fundamentally unsustainable, which also caused the exhaustion of old investment institutions. The new NDC arrangement is very different from the original scheme and individuals also carry the investment risks. In Finland, the TEL/TyEL universal earnings-related pension scheme has been a great success from the pension provision point of view, and the scheme has survived all kinds of shocks with minor parametric changes (Vidlund 2006; Hinrichs & Kangas 2003), but it was the questioned investment targets and practices that caused some of the most important changes.

Secondly, although residing in the first pillar and relying on collective political bargaining rather than individual choice, the Swedish assets have always been in nature public whiled the Finnish have been private. Comparing the origins of these financial actors, the Swedish public foundations, (original AP funds) have been led by state-nominated directors, whereas the Finnish TEL companies and funds are run by the Finnish business elite and labour market representatives. In brief, the Swedes opted for a state-led ‘politics against markets’ approach (Esping-Andersen, 1985) while the Finns opted for a 'markets against politics' approach (Kangas 2007). It must be noticed, however, that this is not to say that the funds have always been used so that exemplify these paradigms, public or private. Indeed, the manifestation of difference in the second similarity is that in both countries the emergence of the funds was a matter of different national economic developments they both later abandoned. In Sweden, the project was a national state-led social project and financial transformation, in which pension funds became a new source for government spending and formerly very inflexible bank and insurance-company led private sector credit. In Finland, the project was a national collective yet private project of economic transformation, in which national business competitivity was enhanced with firm-specific loans and employment projects. Neither country has enabled funds to take over corporate governance, although Finnish funds are now normatively pushed towards increasing shareholder activism.

Thirdly, the two cases illustrate quite different ways in which similar professional global portfolio finance and other parts such as shareholder value bias and MPT-based risk management of the phenomenon we here call the *financialisation of pension capital* has been introduced. In Sweden, the introduction was first gradual but very limited and was later on in the early 2000s an intrinsic part of a paradigmatic historical change in pension policy. In Finland, the introduction was parametric and made gradual with rational policy design on investment boundary conditions. However, there is something peculiar about modern finance when it comes to the reforms. In neither country was the modern finance paradigm *introduced* by policy changes. Rather, it was a discursive institution that was an important ingredient in other institutional changes that took place in these countries. The new paradigm was more enabled by regulative reforms in both countries than served as a cause for the reforms, but again in different ways. Yet, it was only in sense of enabling new discursive framework that the regulative reforms could be called ‘liberalisation’. The rules governing investments in both countries are still very strong – arguably much more technical in Finland – and embed investments in pension provision in very different ways. In both countries, funds have become properly technocratic ‘fifth stage pension fund capitalists’ (Clark & Hebb 2004) but ones that execute very different albeit important public task.

These three issues imply that social policy and varieties of capitalism scholars have a real puzzle to solve if they want to classify welfare regimes consistently taking assets and liabilities into account. The Swedish project was a coordinated one (national funds and long-term state-mediated projects) and corporatist-fixed social democratic (universal earnings-related minimum DB) one from the beginning, but later found that the means of executing this project was becoming more liberal in investments (secondary market portfolio investments) and pension promises (individual NDC risks and personal choice element in PPM). The Finnish project was also a coordinated one (dominant automatic loans to employers) and indeed social democratic (universal earnings-related total DB pensions), albeit with a stronger ‘corporatist twist’ (decentralisation, private assets), and later also found itself acting as a liberal global portfolio investor. The Finnish pension security, however, never approached the liberal regime, neither did it opt for a path departure as the Swedish pension system did. Our study confirms two things. Firstly, the reforms in funding principles and investment practices can be equally related to crises in pension liabilities or PAYG system characteristics as much as to very specific investment paradigms. Secondly, larger pension reforms should be related to both the 'asset side' and the 'liability side'. In other words, both sides are coupled in essential similar or different ways, which suggests that social policy scholars looking at pension reforms must not forget the 'asset side', which should be a part of the empirical analysis in order to provide credible explanations for pension reforms.

In the more nuanced theoretical terms used concerning governance and institutional change, these two cases manifest very different kinds of development paths. The main difference between the Swedish and Finnish institutionalisation process was in formal governance (see Table 6). The Swedish process led to nationally and centrally controlled specific forms of AP funds, whose directors were according to prevailing norms to be nominated mostly from labour market organisations, yet constantly open to political struggles. This process was characterised by the dominant powers of Social Democrats and LO allied in the process. The Finnish process was marked by stronger employer influence (main body being STK) and more party political fragmentation. The process led to a decentralised system, in which assets were used privately (although extensively regulated in terms of liability management). In terms of operational governance, the ways in which investments were steered had few albeit important differences. Both funds' investment policies were dependent on the premium lending, although in lesser scale and more payment record dependently in Sweden. In regulative terms, the Swedish funds were directly constrained investing in equity whilst the Finnish funds were indirectly constrained by small reserves and solvency. The most important feature separating the two funds was a normative one: it was proper for the Swedish funds to invest in earmarked government bonds whereas the Finnish funds could only be used to private business projects. In discursive terms, the Finnish policies have always been more risk-aware and the Swedish policies more profit-oriented.

	The Initial Design (1960s)		The Current Form (2000s)	
	Swedish AP funds	**Finnish TEL funds (PICs, both fund types)**	**Swedish AP/PPM funds**	**Finnish TyEL funds (PICs, both fund types)**
Pension scheme generating the assets	National first-pillar, second tier, prefunded DB scheme financed by employers	Decentralised national first pillar, second tier, prefunded DB scheme financed by employers	National first-pillar, second tier, prefunded NDC scheme, personal accounts, financed by employers and employees	Decentralised national first pillar, second tier, prefunded DB scheme financed by employers and employees
Legal entities managing the scheme assets	Public AP funds (3): public foundations open to political struggle	Private entities: PICs, company pension funds, or industry-wide funds (according to employer selection)	Public AP funds (6, including PPM 'default fund') + private management (PPM)	Private entities: PICs, company pension funds, or industry-wide funds (according to employer selection)
Legal characteristics and regulatory sectors	Public foundations (not marked-to-market liabilities)	Private insurance companies and book reserves (marked-to-market liabilities)	Public foundations + private investment funds	Private insurance companies
Who controls	Public control: tripartite representation, BoDs nominated by state	Corporate governance: mild parity representation norm (BoDs nominated by supervisory boards on behalf of shareholders)	Public selection of professional managers; Private managers	Corporate governance: majority parity representation
Savings channelled through	Premium lending + internal and external (state and banks) management	Premium lending and internal asset management (PICs)	Internal and external portfolio management	Internal and external portfolio management
Primary investment vehicles	Government bonds (74%), promissory loans (18%) housing bonds	Premium lending (always >50 %), investment loans, few shares and housing bonds	Domestic and international (including emerging countries) equity and fixed-income	Euro-Area and international equity and fixed-income; alternative assets (much variation)
Selection criteria, mechanisms and constraints	Automatic (premium lending), profitability, state-led national social projects No equity investment	Automatic (premium lending), employment (investment loans) No risky investments	Risk and return, portfolio diversification, ethical screening Limited shareholder activism, various quantitative restrictions	Risk and return, portfolio diversification, shareholder activism Various quantitative restrictions
Primary investment goals	Productive capital-provision and social development; the Rehn-Meidner plan	Productive private capital for economic growth and structural change; private housing	Professional portfolio management: long-term profitability	Professional portfolio management: long-term system risk management
Policy tensions	Too high pension promises	Premium loans not directed only to productive investments	Low investment performance (i.e. lower pensions), loss of popular interest and support of PPM	Crisis of consensual decision-making

Table 6. The institutional design of Swedish AP and Finnish TEL funds

	Swedish AP funds	Finnish TEL/TyEL funds
Institutionalisation and Institution-building	Discursive drift in the old pension scheme New idea of prefunding	Substantial bricolage (private sector insurance companies + mandatory funding)
First Wave of Institutional Change	Discursive layering with regulative translation (AP4: new actor and mandate)	Normative translation (enforcing parity principle in administration)
Second Wave of Institutional Change	Discursive drift in pension sustainability (but legitimate investments) Normative exhaustion (of ATP: "Catch-22") Regulative translation (NDC into ATP; new investment rules) and layering (redistribution of assets between new actors)	Normative drift in investments (but legitimate liabilities) Conversion with translation (old purposes in new discursive forms, new investment rules)
Typical Long-term Change in Investment Governance	Layering and drift	Conversion

Table 7. Institutional change processes in pension fund governance

Our analysis suggests that there have been significant differences between these two ostensibly similar countries in the investment policy level over time from the beginning of the schemes to this day. However, it is the institutional change processes that tell us the most about the differences in the politics over pension assets. The Swedes have been more open to lengthy political struggles and thus prone to layering and drift, constantly adjusting the institutional arrangements, creating new ones and redistributing the old ones. The Finns have created extraordinarily successful path dependencies in which institutions either diffuse or exhaust, but have still been able to reform them in time whenever the latter option has emerged. The introduction of modern finance paradigm to the regulative framework is a prime example. The Swedes created new institutions and redistributed the old ones in their 1998/2001 reform, whilst Finns simply converted the old institutions to new purposes. The discursive changes from 'real economy projects' to financial professionalism were quite similar in both countries, albeit that the Finnish paradigm included also a short-term competitivity bias in addition to the more long-term perspectives, and it was rather the differences in discursive frameworks of the 'liability side', in good structuration legacies in formal governance, and in the essential differences in investment norms that made the shift to global portfolio investments different.

To end the paper it must be noted that the current politics over pension assets have transformed in both countries into a form that especially the Swedish policymakers of the early 1960s could hardly even recognize as such politics. The technocratic quantitative governance paradigm based on risk-return-dualisms and portfolio management easily raises concerns that investments have been depoliticised (De Goede 2004). But this is not necessarily the case. Now, *the political struggles are in nature normative rather than regulative*, and the location is the either the general public domain or carefully mandated special bodies that discuss what securities are appropriate and what aren't. The new paradigms also manifest important differences. In Sweden there is an ethical council that can, albeit not necessarily too effectively, judge individual investments, whilst the normative framework for the Finnish investment selection is provider-specific. Whilst the public control and even interest over Swedish assets has diminished over time, the recent calls for banning hedge fund investments in Finnish pension investments have increased public attention and perhaps continued the polarisation of public opinion on appropriate investments (for public opinion survey, see TELA 2007). Curiously, it is the very long Finnish technocratic governance legacy that might cause more severe normative contestation in the future, not the Swedish paradigm that has enabled political struggles over time but later dismantled them and given room to individual considerations in defining investment policy.

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